

STANCOR LIMITED annual report 1966





OFFICERS:

Douglas Rudyard Annett—*Chairman of the Board*
80 Glengrove Avenue West, Toronto, Ontario.

Joseph William Stack, Jr.—*President*
41 Stratheden Road, Toronto, Ontario.

Robert Legat Trevor Baillie—*Vice-President and Treasurer*
88 Glencairn Avenue, Toronto, Ontario.

Harry Sklar—*Vice-President, Planning and Corporate Development*
62 Wimpole Drive, Willowdale, Ontario.

Louis Sklar—*Vice-President and General Manager Sklar Division*
290 Glenview Avenue, Oshawa, Ontario.

Joseph Sklar—*Vice-President and Director of Design*
41 Wimpole Drive, Willowdale, Ontario.

Samuel Sklar—*Vice-President, Marketing*
1 Huckleberry Lane, Thornhill, Ontario.

William James Boyd King—*Vice-President, Production*
R.R. # 2, Hanover, Ontario.

John Edward Peppler—*Vice-President and General Manager
Peppler Division*
294—2nd Street, Hanover, Ontario.

Allan Leslie Beattie—*Secretary*
89 Douglas Drive, Toronto, Ontario.

DIRECTORS:

Douglas Rudyard Annett—*Investment Dealer*
80 Glengrove Avenue West, Toronto, Ontario.

Allan Leslie Beattie, Q.C.—*Solicitor*
89 Douglas Drive, Toronto, Ontario.

Robert Ducas—*Executive*
745 Fifth Ave., New York, N.Y.

Alec Roy Jacobs—*Executive*
37 Glenallen Road, Toronto, Ontario.

Harry Sklar—*Executive*
62 Wimpole Drive, Willowdale, Ontario.

Joseph Sklar—*Executive*
41 Wimpole Drive, Willowdale, Ontario.

Louis Sklar—*Executive*
290 Glenview Avenue, Oshawa, Ontario.

Samuel Sklar—*Executive*
1 Huckleberry Lane, Thornhill, Ontario.

Joseph William Stack, Jr.—*Executive*
41 Stratheden Road, Toronto, Ontario.

MARCH 4, 1966 *File*

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NEW ISSUE

STANCOR LIMITED

150,000 6% Cumulative Redeemable Convertible

First Preference Shares 1966 Series
(par value \$10 each)

and

Share Purchase Warrants in respect of

45,000 Common Shares

THE SECURITIES HEREBY OFFERED ARE SPECULATIVE SECURITIES

Prospectus



ANNETT & COMPANY LIMITED

11 KING STREET WEST, TORONTO 1, ONTARIO, TELEPHONE 362-7393
129 ST. JAMES ST. W., MONTREAL 1, QUE., TELEPHONE 844-1592

No Securities Commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder, and any representation to the contrary is an offence.

This prospectus is not and under no circumstances is to be construed as a public offering of any of these preference shares or share purchase warrants for sale in the United States of America or in the territories or possessions thereof.

NEW ISSUE

STANCOR LIMITED

(Incorporated under the laws of Ontario)

150,000 6% Cumulative Redeemable Convertible First Preference Shares 1966 Series (par value \$10 each)

and

Share Purchase Warrants in respect of 45,000 Common Shares

Offered in Units consisting of 10 6% Cumulative Redeemable Convertible First Preference Shares 1966 Series with a par value of \$10 each and a Share Purchase Warrant in respect of 3 Common Shares.

These 6% Cumulative Redeemable Convertible First Preference Shares 1966 Series with a par value of \$10 each (the "Preference Shares 1966 Series") when issued are to be fully paid and non-assessable, preferred as to capital and dividends and entitled to fixed cumulative preferential cash dividends (to accrue from March 21, 1966), as and when declared by the Board of Directors, at the rate of 6% per annum payable half-yearly on the first day of February and August in each year by cheque at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted).

The Preference Shares 1966 Series will be redeemable at any time after March 1, 1969 in whole or from time to time in part on not less than 30 days notice at the amount paid up thereon together with a premium of 6% thereof and all accrued and unpaid preferential dividends thereon to the date of redemption.

Conversion Privilege

Each Preference Share 1966 Series will be convertible at the option of the holder at any time up to the close of business on March 1, 1978, or the third day immediately preceding the date specified for redemption of such Preference Share, whichever is the earlier, into $1\frac{1}{4}$ Common Shares in the capital of the Company as presently constituted if such conversion takes place on or before March 1, 1973 and into one Common Share in the capital of the Company as presently constituted if such conversion takes place after March 1, 1973 and on or before March 1, 1978. No adjustment will be made on the conversion of any such Preference Share for dividends accrued on such Preference Share or for dividends on Common Shares of the Company issuable on such conversion.

The provisions attaching to the Preference Shares 1966 Series will provide for the adjustment of the conversion privilege in certain events more fully described commencing on page 19 of this prospectus.

The Company commenced operations on March 8, 1965 and, therefore, no history of earnings, other than as set forth on page 8 hereof, is available on which it is possible to assess the ability of the Company to meet its cumulative dividends on the Preference Shares 1966 Series offered by this prospectus and to meet principal and interest payments on its previously issued and outstanding $6\frac{1}{2}\%$ Convertible Collateral Trust Debentures.

Share Purchase Warrants

The Share Purchase Warrants forming part of the Units will entitle the holders thereof to purchase the number of Common Shares without par value in the capital of the Company specified therein at any time up to and including June 15, 1975 at the price of \$8.00 per share. The Indenture pursuant to which the Share Purchase Warrants will be issued will contain provisions for adjustment of the subscription price and of the number of Common Shares issuable pursuant to the privilege attaching to the Share Purchase Warrants in certain events more fully referred to on page 27 of this prospectus.

Transfer Agent and Registrar for the Preference Shares 1966 Series

MONTREAL TRUST COMPANY, Montreal and Toronto

We, as principals, offer these Units, each consisting of 10 Preference Shares 1966 Series and a Share Purchase Warrant in respect of 3 Common Shares, subject to prior sale and change in price if, as and when issued and accepted by us and subject to the approval of all legal matters on behalf of the Company by Messrs. Osler, Hoskin & Harcourt, Toronto, Ontario, and on our behalf by Messrs. McCarthy & McCarthy, Toronto, Ontario.

PRICE: \$100 per Unit

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

It is expected that share certificates for the Preference Shares 1966 Series and Share Purchase Warrants will be available for delivery on or about March 21, 1966.

The following information has been supplied by Mr. Joseph William Stack, Jr., the President of Stancor Limited.

THE COMPANY

Stancor Limited ("Stancor" or the "Company") was incorporated under the laws of Ontario by letters patent dated March 8, 1965. The Company was formed to carry on business either directly or through ownership of shares in other companies in the furniture manufacturing industry and associated fields. It is the policy of the Company to acquire and integrate a group of furniture manufacturing divisions capable of producing a wide range of furniture products. As these divisions are acquired, the Company intends to introduce modern management techniques, the latest manufacturing technology and progressive marketing methods. The objective is to become one of the larger producers of quality furniture in Canada which will be capable of competing in the United States.

On May 21, 1965 the Company acquired all of the outstanding shares of four furniture companies for a total consideration of \$1,000,000. The four companies were Peppler Bros. Company Limited (hereinafter referred to as the "Peppler division"), The Neustadt Manufacturing Company Limited, Peppler-Selig Sales Limited and Peppler-Selig Limited (formerly John C. Mundell & Company Limited and hereinafter referred to as the "Peppler-Selig division"). This acquisition provided the Company with two recognized quality furniture manufacturers to serve as a base from which to work towards its objectives. The purchase price of \$1,000,000 was satisfied by the payment of \$750,200, the issuance of 36,000 common shares in the capital of Stancor and the balance by the issuance of two 6% promissory notes each in the principal amount of \$25,000 and due May 21, 1966 and May 21, 1967 respectively.

OPERATIONS

Peppler Division

Stancor, through its Peppler division manufactures quality dining and bedroom suites as well as tables and chairs. The name Peppler has been well known, particularly in this branch of the furniture trade (known as case goods), for over two generations.

At the time of its acquisition by Stancor, the factory of the Peppler division, located in Hanover, Ontario, was a four storey building of the traditional type similar to that operated by most case goods manufacturers. The equipment and machinery, however, were modern and many of the major machines had been purchased within the last two years.

Detailed studies of sales and the existing facilities at Hanover made it evident that the production capacity of these facilities was not adequate to supply present and forecast demand for Peppler products. In order, therefore, to increase production capacity as well as to maintain and improve existing profit margins, it was decided to build a new factory in Hanover of 180,000 square feet and to modernize and expand the existing factory of Peppler. Construction commenced in August 1965 and the new factory became fully operational on March 1, 1966.

The two plants combined will have an annual minimum production capacity amounting to \$5,000,000 as against \$1,700,000 capacity prior to the expansion program. This would amount to a production of \$420,000 monthly, which rate is expected to be achieved in October 1966. The sales of Peppler for the year 1965 totalled \$1,700,000 but because of the production limitations of the then existing factory, the Peppler division had to turn down an additional \$2,100,000 worth of orders. To date this year, the rate of orders for Peppler products is running in excess of that received in a comparable period in the year 1965. Based upon the amount of the orders which the division had to turn down last year and upon the current rate of orders being received by the Company, it is expected that the production capacity of the new facilities at Hanover will be fully utilized within the first year of operations.

In addition to constructing the new factory, and as part of the program to increase production and to lower production costs, the Company has modernized and expanded the original Peppler plant from 145,000 square feet to 175,000 square feet. With completion of the new factory, the operations carried on at the original Peppler factory will primarily consist of the storage of raw lumber, the kilning of the lumber, the "break out" or the cutting of rough parts from the seasoned lumber and the subsequent machining of the rough parts. These

parts will then be moved to the new plant where they will be assembled into furniture, finished, inspected and crated for shipment. The capacity of the original Peppler plant as a result of the expansion and the transferring of some of its former operations to the new plant will be increased from 2 million board feet to 6 million board feet annually.

The cost of the new factory and the modernization and expansion of the facilities of the original plant is approximately \$2,600,000. In addition to the substantial increase in production capability, it is expected that reductions in manufacturing costs and advantages of straight line production should result in substantially better profit margins.

Peppler-Selig Division

This division produces quality upholstered furniture under the brand name Peppler-Selig in Elora, Ontario. The division uses the Selig name under a royalty arrangement with Selig Manufacturing Company Inc. of Massachusetts under which designs, material selections and certain merchandising programs are made available to the Company. The Elora plant consists of four joined Butler Buildings located on an eight-acre site convenient to the Guelph-Kitchener labor market. In contrast to the case goods industry, upholstery manufacturing requires a much smaller investment in machinery but is dependent on an ample labor supply. The plant's proximity to a large source of labour is an important advantage.

Debenture Principal And Interest And Preference Dividend Coverage

The Company commenced operations on March 8, 1965 and, therefore, no history of earnings, other than as set forth on page 8 hereof, is available on which it is possible to assess the ability of the Company to meet principal and interest payments on the outstanding 6½ % Convertible Collateral Trust Debentures and, if, as and when declared by the directors, dividend payments on the Preference Shares 1966 Series. However, because of the increased production capacity, the maintenance and improvement of profit margins and the expected increase in sales volume mentioned above, it is the opinion of management that the Company will achieve earnings more than sufficient to meet such principal, interest and dividend requirements. In the six months following completion of the new plant, it may be necessary in order to meet the interest on such Debentures to use a portion of that part of the proceeds from the sale of the securities offered by this prospectus which is being added to the Company's working capital. Dividends on the Preference Shares 1966 Series can only be declared to the extent that the Company has earnings available therefor.

Position With Respect To Income Tax

The Company will be able to take advantage of the accelerated depreciation allowances (50% per annum on a straight line basis) available for tax purposes on all new machinery and equipment acquired under the expansion program. As a result, the Company does not expect to pay income taxes on its income from the Peppler Division for 1966 or 1967.

PAST FINANCING

The Company, in August, 1965, sold 120,000 common shares and share purchase warrants in respect of 100,000 common shares, for which it received a total of \$674,000 in cash. Approximately \$500,000 of such proceeds were applied in retirement of a bank loan incurred by the Company to provide a part of the cash portion of the purchase price of the four furniture companies referred to under the heading "The Company" and the balance was used for general corporate purposes. In November, 1965, the Company issued \$1,250,000 principal amount of 6½ % Convertible Collateral Trust Debentures, the net proceeds of which, amounting to \$1,187,500, were used to defray in part the cost of construction of the new plant.

PURPOSE OF THIS ISSUE

The net proceeds to Stancor from the sale of the 150,000 6% Cumulative Redeemable Convertible First Preference Shares 1966 Series with a par value of \$10 each and the 85,000 share purchase warrants now proposed to be issued by the Company, of which 45,000 share purchase warrants will be issued with the Preference Shares 1966 Series in Units each consisting of 10 Preference Shares 1966 Series and 3 share purchase warrants, will be used to repay bank indebtedness of the Company incurred in connection with the cost of construction of the new factory and of the additions and alterations to the original Peppler factory, to cover the balance of the cost of such construction, to pay for the purchase of new machinery and equipment and the balance will added to the working capital of the Company. Reference is made to paragraph 14 of the Statutory Information for details of the deposit and application of such net proceeds for the aforesaid purposes. As mentioned above under the sub-heading "Debenture Principal And Interest And Preference Dividend Coverage", in the six months following completion of the new plant, it may be necessary in order to meet the interest requirements referred to under that sub-heading to use a portion of that part of the proceeds from the sale of the securities hereby offered which is being added to the Company's working capital.

CAPITALIZATION

(after giving effect to the present financing)

| <i>Deferred Notes Payable</i> | <i>Authorized</i> | <i>Outstanding</i> |
|---|-------------------|--------------------|
| Note payable—6% due May 21, 1966 | \$ 25,000(1) | \$ 25,000 |
| Note payable—6% due May 21, 1967 | 25,000(1) | 25,000 |
| <i>Long Term Debt</i> | | |
| 6½ % Convertible Collateral Trust Debentures due November 15, 1977 | 1,250,000 | 1,250,000 |
| <i>Capital Stock</i> | | |
| First Preference Shares with a par value of \$10 | | |
| each, issuable in series | 225,000 shs.(2) | |
| 6% Cumulative Redeemable Convertible Preference Shares 1966 Series | | 150,000 shs.(2) |
| Common Shares without par value | 750,000 shs.(3) | 271,000 shs. |

- (1) Issued to Frederick H. Peppler as part of the consideration for the purchase of the Peppler companies by the Company.
- (2) Each 6% Cumulative Redeemable Convertible Preference Share 1966 Series is convertible into common shares on the basis set out in paragraph 8 of the Statutory Information. To the extent that the said Preference Shares are converted into common shares The Corporations Act of Ontario provides that the number of shares of each class affected by the conversion is changed accordingly.
- (3) 156,250 shares are reserved for issue upon the exercise of the right of conversion attaching to the 6½ % Convertible Collateral Trust Debentures, 185,000 shares are or will be reserved for issue upon the exercise of share purchase warrants to purchase shares at a price of \$8.00 per share until June 15, 1975 and 20,000 shares are reserved for issue upon the exercise of stock options granted to officers or employees to purchase such shares at a price of \$8 per share exercisable for periods up to six years.

CONSOLIDATED NET TANGIBLE ASSETS

The consolidated net tangible assets of the Company and its subsidiaries after giving effect to the present financing (and as shown in the subjoined pro forma consolidated balance sheet as at December 31, 1965) are as follows:

| | | |
|---|--------------|--------------|
| Current assets | \$ 1,348,849 | |
| Less current liabilities | 818,061 | |
| | <hr/> | |
| Working capital | | \$ 530,788 |
| Fixed assets | | |
| Original plant and equipment, at cost | 1,357,052 | |
| Excess of purchase price of shares of subsidiary companies over book values of net assets acquired, allocated to machinery and equipment | 207,884 | |
| | <hr/> | |
| | 1,564,936 | |
| Less accumulated depreciation | 829,432 | |
| | <hr/> | |
| | 735,504 | |
| New factory and equipment | | |
| Cost to December 31, 1965 | 1,146,474 | |
| Cash held for further capital expenditures | 1,368,526 | |
| | <hr/> | |
| | | 3,250,504 |
| | | <hr/> |
| | | 3,781,292 |
| Deduct: | | |
| Deferred Note Payable—6% due May 21, 1967 | 25,000 | |
| 6½ % Convertible Collateral Trust Debentures due November 15, 1977 | 1,250,000 | |
| | <hr/> | |
| | | 1,275,000 |
| | | <hr/> |
| Consolidated net tangible assets upon completion of the present financing | | \$ 2,506,292 |
| | | <hr/> <hr/> |

On the above basis, consolidated net tangible assets for the 150,000 Preference Shares 1966 Series to be outstanding upon completion of the present financing amount to about \$16.70 per share with a par value of \$10.

MANAGEMENT

The President of the Company is Mr. J. William Stack, Jr. Mr. Stack has had a number of years of senior executive experience, ten years with General Motors in the United States, three years in the malting industry and prior to becoming President of Stancor was General Sales Manager of Massey-Ferguson Inc., in charge of the entire American sales program.

Mr. Frederick H. Peppler has been President of Peppler since 1949. He is Vice-President and a Director of Stancor and General Manager of the Peppler operations.

Mr. Robert L. T. Baillie, a chartered accountant, Vice-President and Treasurer of the Company, was previously Comptroller, North American Operations, of Massey-Ferguson Limited. Prior to joining Massey-Ferguson in 1957 he was an associate of a leading Canadian firm of chartered accountants.

Mr. J. Edward Peppler, the brother of Frederick H. Peppler, directs the production operations in Hanover. He has spent his entire business career in the furniture industry.

The Peppler-Selig plant in Elora is managed by Mr. David Eby who has spent 17 years in the furniture industry. He joined Peppler-Selig Limited in 1961.

Special consultant to the Company is Mr. Edward Lucas who formerly was the principal furniture buyer for one of Canada's largest retailing organizations.

SUMMARY OF CERTAIN PROVISIONS ATTACHING TO PREFERENCE SHARES

Dividends

1. The holders of the Preference Shares 1966 Series will be entitled to receive, as and when declared by the board of directors, fixed cumulative preferential cash dividends at the rate of 60 cents per share per annum, and no more, payable half yearly on the first day of February and August in each year.

Rights on Liquidation

2. In the event of the liquidation, dissolution or winding up of the Company or any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs the holders of Preference Shares 1966 Series shall be entitled to \$10.60 per share plus all accrued and unpaid preferential dividends before any amount shall be paid or any property or assets of the Company distributed to the holders of shares of any class ranking junior to the Preference Shares 1966 Series; thereafter the holders of Preference Shares 1966 Series shall not be entitled to share in any further distribution of property or assets of the Company.

Redemption

3. The Company from and after March 1, 1969 may redeem at any time the whole or from time to time any part of the then outstanding Preference Shares 1966 Series on 30 days' notice on payment for each share to be redeemed of \$10.60 together with all accrued and unpaid preferential dividends.

Right of Company to Purchase

4. The Company may at any time or times purchase (if obtainable) for cancellation all or any part of the Preference Shares 1966 Series outstanding from time to time at a price not exceeding \$10.60 per share, plus costs of purchase.

Restrictions on Payment of Dividends, Redemptions, Etc.

5. The Company shall not declare, pay or set apart any dividends on or redeem, purchase, reduce or otherwise pay off any shares of the Company ranking junior to the First Preference Shares unless all dividends up to and including the dividend payable for the last completed half-year on all First Preference Shares then issued and outstanding shall have been declared and paid or set apart for payment.

6. The Company shall not

- (i) declare or pay any dividends (other than stock dividends in shares of the Company ranking junior to the Preference Shares 1966 Series) on any of its shares at any time outstanding and ranking junior to the Preference Shares 1966 Series; or
- (ii) redeem, reduce, purchase or otherwise pay off any of its shares at any time outstanding and ranking junior to the Preference Shares 1966 Series (except out of the proceeds of an issue of shares ranking junior to the Preference Shares 1966 Series made at any time after March 1, 1966 and prior to or contemporaneously with any such redemption, reduction, purchase or payment); or
- (iii) elect to pay any tax on undistributed income under the provisions of Section 105 of the Income Tax Act as now enacted or as the same may from time to time be amended or re-enacted or elect to pay any tax under any similar provisions;

if immediately after giving effect to any such action (a) consolidated current assets of the Company and its subsidiaries would be less than 200% of consolidated current liabilities of the Company and its subsidiaries, or (b) total equity would be less than \$3,200,000.

Conversion Rights

7. The conversion rights attaching to the Preference Shares 1966 Series are summarized on the cover page of this prospectus and are more particularly set forth commencing at page 19 of this prospectus.

Issue of Additional First Preference Shares

8. The authorized but unissued First Preference Shares shall be issuable in one or more series, with such provisions as the directors of the Company may by resolution determine and as may be set forth in supplementary letters patent. The First Preference Shares of each series shall rank on a parity with the First Preference Shares of every other series with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Company. No class of shares shall be created or issued ranking as to capital or dividends prior to or on a parity with the First Preference Shares without the approval of the holders of the Preference Shares 1966 Series, provided that the Company may issue additional series of the authorized First Preference Shares without such approval as hereinafter provided.

The Company shall not issue any First Preference Shares in addition to the 150,000 Preference Shares 1966 Series without the prior approval of the holders of the Preference Shares 1966 Series unless, immediately after giving effect to the issue of such additional First Preference Shares, (a) total equity of the Company is at least equal to 2 times the aggregate amount paid up on all First Preference Shares and any shares ranking in any way prior to or on a parity therewith, and (b) average annual consolidated net earnings of the Company and its subsidiaries for the last two completed fiscal years immediately prior to the issue of such First Preference Shares have been at least equal to 4 times the annual dividend requirements on all the First Preference Shares and any shares ranking in any way prior to or on a parity therewith to be outstanding immediately after such issue.

Voting Rights

9. The holders of the Preference Shares 1966 Series shall not have any voting rights nor shall they be entitled to receive notice of or attend shareholders' meetings (except that they shall be entitled to notice of meetings of the shareholders to authorize the dissolution of the Company or the sale of its undertaking or a substantial part thereof) unless dividends on the First Preference Shares of any series become in arrears to the extent of 4 half yearly dividends, whereupon, until all arrears of dividends on the First Preference Shares

have been paid, such holders shall be entitled to receive notice of and to attend all shareholders' meetings and to one vote in respect of each Preference Share 1966 Series held and, together with the holders of all other outstanding First Preference Shares, shall be entitled to elect two-fifths of the total number of the directors of the Company or, if the total number of the directors be not evenly divisible by two-fifths, then the next highest number above two-fifths.

The foregoing statement with respect to the First Preference Shares as a class and the Preference Shares 1966 Series is not complete and is qualified in its entirety by reference to the full provisions attaching thereto which commence at page 15.

EARNINGS

A statement of consolidated earnings of Stancor and the subsidiary companies for the nine months ended December 31, 1965, and a pro forma statement of combined earnings of the subsidiary companies for the ten year and three month pre-acquisition period ended March 31, 1965, both reported on by the Company's auditors, follow. These statements incorporate the results of both the case goods and the upholstered goods businesses. The net combined operating losses in the years 1957 to 1962 inclusive are essentially all attributable to the upholstered goods business conducted by Peppler-Selig Limited. It was not until complete control had been obtained in 1964 that the management of Peppler was able to change Peppler-Selig Limited into a profitable operation.

STANCOR LIMITED

STATEMENT OF CONSOLIDATED EARNINGS

FOR THE NINE MONTHS ENDED DECEMBER 31, 1965

and

PRO FORMA STATEMENT OF COMBINED EARNINGS OF THE SUBSIDIARY COMPANIES
FOR THE TEN YEAR AND THREE MONTH PRE-ACQUISITION PERIOD ENDED MARCH 31, 1965

| | Income before interest, depreciation, profits on sale of fixed assets, and income taxes | Interest (note 3) | Depreciation (notes 2 and 4) | Profit (loss) on sale of fixed assets | Income (loss) before income taxes | Income taxes provided (recovered) (notes 2 and 5) | Net income (loss) |
|---------------------------------|--|----------------------|---------------------------------|---|---|--|-------------------------|
| Statement of | | | | | | | |
| Consolidated Earnings | | | | | | | |
| 9 months ended | | | | | | | |
| December | | | | | | | |
| 31, 1965 | \$104,021 | \$ 35,436 | \$ 60,436 | \$ 10,161 | \$ 18,310 | | \$ 18,310 |
| Pro Forma Statement of | | | | | | | |
| Combined Earnings of the | | | | | | | |
| Subsidiary Companies | | | | | | | |
| (pre-acquisition period) | | | | | | | |
| 3 months ended | | | | | | | |
| March 31, 1965 | 69,365 | 7,474 | 12,385 | 750 | 50,256 | \$ 13,000 | 37,256 |
| Year ended | | | | | | | |
| December 31, | | | | | | | |
| 1964 | 187,992 | 23,278 | 53,754 | 2,520 | 113,480 | 32,266 | 81,214 |
| 1963 | 144,571 | 12,745 | 47,661 | | 84,165 | 24,770 | 59,395 |
| 1962 | 7,808 | 13,998 | 38,626 | (1,662) | (46,478) | 1,100 | (47,578) |
| 1961 | 11,029 | 12,335 | 35,229 | 37 | (36,498) | (3,300) | (33,198) |
| 1960 | 30,105 | 4,129 | 39,201 | (6,794) | (20,019) | (10,700) | (9,319) |
| 1959 | 19,016 | 791 | 43,174 | 2,915 | (22,034) | (10,500) | (11,534) |
| 1958 | 69,645 | 4,354 | 46,840 | 1,081 | 19,532 | 4,700 | 14,832 |
| 1957 | 13,908 | 3,101 | 53,913 | 427 | (42,679) | (13,200) | (29,479) |
| 1956 | 119,125 | 2,883 | 48,597 | 6,546 | 74,191 | 46,200 | 27,991 |
| 1955 | 94,427 | 231 | 49,510 | 6,955 | 51,641 | 35,200 | 16,441 |

NOTES:

1. Stancor Limited was incorporated in March, 1965 and, in May, 1965 acquired, either by direct purchase or by purchase of shares of the holding company, all the outstanding shares of The Neustadt Manufacturing Company Limited (holding company), Peppler Bros. Company Limited, Peppler-Selig Sales Limited and Peppler-Selig Limited (formerly John C. Mundell & Company Limited). For accounting purposes the acquisition is deemed to have taken place as of March 31, 1965 (the closest interim date to which accounts of the companies had been prepared). The above summary sets out:
 - (a) A statement of consolidated earnings of Stancor Limited and its wholly-owned subsidiaries for the nine months ended December 31, 1965.
 - (b) A pro forma statement of the combined earnings of the subsidiary companies for the ten years and three months preceding the date of acquisition. This includes the earnings of Peppler Bros. Company Limited, The Neustadt

Manufacturing Company Limited and Peppler-Selig Limited for the whole of such period, and of Peppler-Selig Sales Limited from the date of commencement of operations on January 1, 1957 to March 31, 1965. The earnings of Peppler-Selig Limited, which did not have a December 31 fiscal year-end throughout the period, have been pro-rated to a December 31 basis.

2. The following adjustments have been made for purposes of the above pro forma statement of combined earnings of the subsidiaries:

- Inter-company income and expenses have been eliminated.
- A depreciation adjustment reflected in the surplus account of one of the companies at March 31, 1965 for depreciation not provided in previous years, has been allocated back to the years concerned.
- Income taxes as provided in the companies' accounts have been recalculated on the basis that the companies were associated for tax purposes throughout the period.
- The income taxes of one of the subsidiary companies for the year 1964 and the three months ended March 31, 1965 were reduced by \$20,300 and \$7,000 respectively as a result of the carry-forward for tax purposes of prior years' losses. In the above statement these tax credits have been allocated back to the loss years giving rise to the credits, i.e., 1959—\$9,200; 1960—\$11,700; 1961—\$6,400.

3. In the nine months ended December 31, 1965, interest expense consisted of:

| | |
|--|------------------|
| Interest on 6½ % convertible debentures (including amortization of discount and expense) | \$ 11,035 |
| Interest on bank borrowings (net) | 31,344 |
| | <u>\$ 42,379</u> |
| Less interest capitalized as part of the cost of construction of the new factory | 6,943 |
| | <u>\$ 35,436</u> |

In the pre-acquisition period ended March 31, 1965, interest expense consisted of interest on bank and other short-term borrowings.

4. Depreciation expense for the nine months ended December 31, 1965 includes an amount of \$15,591 as amortization of the increased values assigned to machinery and equipment as explained in Note 1 to the consolidated balance sheet as at December 31, 1965. For the future such additional depreciation charges will amount to approximately \$21,000 per annum.

5. Income taxes—

- Stancor Limited and its subsidiary companies have adopted the policy of providing only for income taxes actually payable whereas, previous to March 31, 1965, one of the subsidiary companies had followed the policy of providing not only for taxes currently payable but also for the amount by which taxes were reduced by claiming capital cost allowances greater than recorded depreciation. The prior years' income tax provisions of this subsidiary have been adjusted retroactively to conform with the present policy and, as a result, the net income figures (as previously reported in the company's prospectuses dated August 3, 1965 and November 15, 1965) have been increased as follows:

| | |
|-------------------------------------|------------------|
| 3 months ended March 31, 1965 | \$ 11,200 |
| Year ended December 31, 1964 | 13,934 |
| Year ended December 31, 1963 | 6,630 |
| | <u>\$ 31,764</u> |

In the nine months ended December 31, 1965, tax reductions resulting from claiming capital cost allowances greater than recorded depreciation amounted to \$4,300, and the total of such tax reductions accumulated to December 31, 1965 is \$36,064.

- The income which would ordinarily be subject to tax for the nine months ended December 31, 1965 is higher than the income shown by approximately \$29,000, representing certain expenses which are not deductible for income tax purposes. However no provision is required in respect of the income taxes of \$20,600 otherwise payable for this period by reason of (i) the tax reductions of \$4,300 referred to in 5(a), and (ii) the prior years' losses of one of the subsidiary companies which have been used to eliminate \$16,300 of such taxes. Losses still available to carry forward against future profits would, at current tax rates, result in tax credits of approximately \$26,000.
 - Income taxes have been assessed and paid up to the close of the 1964 fiscal periods of the various companies; the income tax provisions of subsequent periods are considered adequate to cover taxes not yet assessed.
6. The following non-recurring items have been excluded from the earnings figures shown above:

Credits—

| | |
|--|------------|
| 1956—Excess of insurance proceeds over net book value of buildings and equipment destroyed by fire.... | \$ 101,949 |
| 1955—Life insurance proceeds | 12,824 |

Charge—

| | |
|---|--------|
| 1964—Legal and other costs re damage suit | 15,438 |
|---|--------|

AUDITORS' REPORT

To the Directors of STANCOR LIMITED:

We have examined the accompanying statement of consolidated earnings of Stancor Limited for the nine months ended December 31, 1965 and pro forma statement of combined earnings of the subsidiaries of Stancor Limited for the ten years and three months ended March 31, 1965. In the case of Stancor Limited, and the three subsidiary companies of which we have been the auditors throughout the period, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to the earnings of the fourth subsidiary company for the years 1955 to 1964 inclusive, we have relied upon the reports of other independent accountants.

In our opinion the accompanying statement of consolidated earnings presents fairly the consolidated earnings of the company and its subsidiaries for the nine months ended December 31, 1965, and the accompanying pro forma statement presents fairly the combined earnings of the subsidiary companies for the ten years and three months ended March 31, 1965, all in accordance with generally accepted accounting principles applied on a consistent basis throughout the period.

Toronto, Canada,
March 4, 1966.

CLARKSON, GORDON & CO.
Chartered Accountants.

CONSOLIDATED BALANCE SHEET AND PR

as at Dec

| | Consolidated balance sheet | Pro forma consolidated balance sheet (note 2) |
|---|-------------------------------|--|
| A S S E T S | | |
| Current: | | |
| Cash | \$ 63,217 | \$ 214,129 |
| Accounts receivable less allowance for doubtful accounts | 362,454 | 362,454 |
| Inventories, at the lower of cost or market — | | |
| Raw materials | \$ 344,317 | |
| Work in process | 149,686 | |
| Finished goods | 248,767 | 742,770 |
| Prepaid expenses and other current assets | 29,496 | 29,496 |
| Total current assets | <u>1,197,937</u> | <u>1,348,849</u> |
| Fixed: | | |
| Land—cost | 18,123 | 18,123 |
| Buildings—cost | 456,275 | 456,275 |
| Machinery and equipment— | | |
| Original cost to subsidiary companies | 882,654 | 882,654 |
| Excess of purchase price of shares of subsidiary companies over book values of net assets acquired, allocated to machinery and equipment (note 1) | 207,884 | 207,884 |
| | <u>1,564,936</u> | <u>1,564,936</u> |
| Less accumulated depreciation (including \$15,591 as amortization of the excess noted above—see note 1) | 829,432 | 829,432 |
| | <u>735,504</u> | <u>735,504</u> |
| Cost of new factory under construction— | | |
| land, buildings, machinery and equipment | 1,146,474 | 1,146,474 |
| Cash held for further capital expenditures | 545,292 | 1,368,526 |
| Total fixed assets | <u>2,427,270</u> | <u>3,250,504</u> |
| Other: | | |
| Debenture discount and expense, less amortization | 82,855 | 82,855 |
| Share issue expenses— | | |
| Common shares | 24,287 | 24,287 |
| Preference shares | | 110,000 |
| Organization and preliminary expenses, less amortization | 15,676 | 15,676 |
| | <u>122,818</u> | <u>232,818</u> |
| | <u>\$ 3,748,025</u> | <u>\$ 4,832,171</u> |

(See accompanying notes to consolidated balance

L I M I T E D

(Incorporated under the laws of Ontario)

companies

FORMA CONSOLIDATED BALANCE SHEET

31, 1965

| | Consolidated balance sheet | Pro forma consolidated balance sheet (note 2) |
|--|-------------------------------|--|
| LIABILITIES | | |
| Current: | | |
| Bank indebtedness of subsidiary companies (note 3) | \$ 616,996 | \$ 616,996 |
| Trade accounts payable and accrued charges | 154,468 | 154,468 |
| Income and other taxes payable (note 4) | 21,597 | 21,597 |
| Note payable—6%—due May 21, 1966 | 25,000 | 25,000 |
| Total current liabilities | 818,061 | 818,061 |
| Amounts due for construction of new factory | 417,854 | |
| Deferred note payable—6%—due May 21, 1967 | 25,000 | 25,000 |
| 6½% convertible collateral trust debentures due November 15, 1977 (subject to sinking fund) (note 5) | 1,250,000 | 1,250,000 |
| Shareholders' equity: | | |
| Capital stock— | | |
| Authorized: | | |
| Consolidated balance sheet— | | |
| 750,000 shares without par value | | |
| Pro forma consolidated balance sheet— | | |
| 225,000 First Preference Shares with a par value of \$10 each, issuable in series, of which 150,000 shares are designated as 6% Cumulative Redeemable Convertible First Preference Shares 1966 series. | | |
| 750,000 common shares without par value. | | |
| Issued: | | |
| Consolidated balance sheet— | | |
| 271,000 shares without par value | 1,213,800 | |
| Pro forma consolidated balance sheet— | | |
| 150,000 6% Cumulative Redeemable Convertible First Preference Shares 1966 series, redeemable at \$10.60 after March 1, 1969 | | 1,500,000 |
| 271,000 common shares without par value | | 1,213,800 |
| Contributed surplus | 5,000 | 7,000 |
| Earned surplus | 18,310 | 18,310 |
| Total shareholders' equity | 1,237,110 | 2,739,110 |
| On behalf of the Board: | | |
| (signed) FREDERICK H. PEPPLER, Director | | |
| (signed) A. L. BEATTIE, Director | | |
| | <u>\$ 3,748,025</u> | <u>\$ 4,832,171</u> |

t and pro forma consolidated balance sheet)

STANCOR LIMITED
and subsidiary companies

NOTES TO CONSOLIDATED BALANCE SHEET AND PRO FORMA
CONSOLIDATED BALANCE SHEET
As at December 31, 1965

1. Stancor Limited was incorporated in March 1965 and, in May 1965, acquired either by direct purchase or by purchase of shares of the holding company, all the outstanding shares of The Neustadt Manufacturing Company Limited (holding company), Peppler Bros. Company Limited, Peppler-Selig Sales Limited and Peppler-Selig Limited (formerly John C. Mundell & Company Limited). The excess of the purchase price of the shares over the book values of the underlying net assets acquired amounting to \$207,884 (consisting of \$239,648 as originally determined less the adjustment of \$31,764 referred to in note 4(a) below), has been allocated to machinery and equipment, and is being amortized over a ten-year period. An appraisal of the machinery and equipment of Peppler Bros. Company Limited by Warnock Hersey Appraisal Company Ltd. in November 1964 indicated that depreciated replacement values exceeded net book values by more than this amount.
2. The pro forma consolidated balance sheet gives effect, as at December 31, 1965, to:
 - (a) The issue of supplementary letters patent dated February 25, 1966 designating the 750,000 existing shares as common shares and increasing the company's authorized capital by creating 225,000 First Preference Shares of \$10 par value each, issuable in series, and supplementary letters patent dated February 28, 1966 designating as the first series 150,000 6% Cumulative Redeemable Convertible First Preference Shares 1966 Series, redeemable at \$10.60 each from and after March 1, 1969.
 - (b) The issue and sale, pursuant to an underwriting agreement dated January 31, 1966, as amended by letter agreement dated February 7, 1966, between Stancor Limited and Annett & Company Limited, of—
 - (i) 150,000 6% Cumulative Redeemable Convertible First Preference Shares 1966 Series, to which will be attached warrants to purchase 45,000 common shares, for a total of \$1,500,000 cash;
 - (ii) Warrants to purchase 40,000 common shares, for a total of \$2,000 cash (allocated to contributed surplus in the pro forma consolidated balance sheet).

The preference shares will be convertible at the holder's option into common shares on the basis of 1¼ common shares for each preference share during the period to March 1, 1973, and 1 common share for each preference share during the period March 2, 1973 to March 1, 1978.

During the period in which any of the preference shares are outstanding, dividends on the common shares will be payable only to the extent that, after such dividend payments, consolidated current assets (as defined) are at least 200% of consolidated current liabilities (as defined), and total equity (as defined) is at least \$3,200,000.
 - (c) The payment of an underwriting commission of \$90,000 and other expenses of \$20,000 in connection with the preference share issue.
 - (d) The utilization of the net proceeds of issue (1) to pay existing liabilities for construction of the new factory, \$417,854, and to finance the remaining capital costs of the new factory, including the purchase of machinery and equipment, estimated at \$823,234, for an aggregate of \$1,241,088 (financed since December 31, 1965 to the extent of \$500,000 by interim bank loans), and (2) to augment the company's working capital with the balance, estimated at \$150,912.

The net proceeds of issue, exclusive of the \$500,000 required to pay interim bank loans, will be deposited with Montreal Trust Company under an agreement to be entered into between Stancor Limited and Montreal Trust Company.
3. Bank indebtedness of the subsidiary companies is secured by a pledge of accounts receivable and inventories of a book value of \$1,101,940. In addition, a \$1,000,000 debenture has been issued to the bank as collateral security, consisting of a floating charge on all the assets of the subsidiary companies.
4. Income taxes—
 - (a) Stancor Limited and its subsidiary companies have adopted the policy of providing only for income taxes actually payable whereas previous to March 31, 1965, one of the subsidiary companies had followed the policy of providing not only for taxes currently payable but also for the amount by which taxes were reduced by claiming capital cost allowances greater than recorded depreciation. The prior years' income tax provisions of this subsidiary have been adjusted retroactively to conform with the present policy and, as a result, accumulated tax reductions of \$31,764 on the books of the subsidiary at March 31, 1965 have been transferred to earned surplus at that date, thereby reducing the excess of the purchase price of the subsidiary's shares over the book values of the underlying net assets acquired.
 - (b) Income taxes have been assessed and paid to the close of the 1964 fiscal periods of the various companies; the income tax provisions of subsequent periods are considered adequate to cover taxes not yet assessed.
5. The principal provisions attaching to the 6½% convertible collateral trust debentures due November 15, 1977 are as follows:
 - (a) The debentures are secured by a first fixed and specific mortgage, pledge and charge of and upon the shares in the capital of Peppler Bros. Company Limited and The Neustadt Manufacturing Company Limited now owned, or

hereafter acquired, by Stancor Limited. As at December 31, 1965 the carrying value of these shares on the books of Stancor Limited amounted to \$1,030,941 representing underlying net book values of the subsidiaries' assets at December 31, 1965 of \$838,648 plus the unamortized excess of the purchase price of the subsidiaries' shares over underlying net book values at date of acquisition of \$192,293.

- (b) The debentures are redeemable in whole or in part at the Company's option from and after November 15, 1968. The redemption price is par plus a premium of 6½% in the year ending November 15, 1969, and thereafter the premium decreases progressively by 1% annually to November 15, 1975, and by ½ of 1% in the year ending November 15, 1976.
- (c) A sinking fund will be established into which the Company will be required to pay amounts sufficient to retire \$70,000 principal amount of debentures on November 15 in each of the years 1968 to 1976 inclusive.
- (d) The debentures are convertible at the holder's option into common shares without par value on the basis of 12½ common shares for each \$100 principal amount of debentures during the period to November 14, 1972, and 10 common shares for each \$100 principal amount of debentures during the period November 15, 1972 to November 14, 1977.

6. Reservation of common shares—

- (a) 185,000 shares are now or will be reserved for possible issue upon the exercise of the 100,000 share purchase warrants presently outstanding and the 85,000 warrants to be issued as part of the financing referred to in note 2 above. Such warrants entitle the holders thereof to purchase common shares at a price of \$8 per share until June 15, 1975, subject to adjustment under certain conditions as provided in the Indentures under which the warrants are or will be issued.
- (b) 20,000 shares are reserved for possible issue upon the exercise of stock options granted to officers or employees of the company and its subsidiaries. As of December 31, 1965 options to purchase 19,000 shares at a price of \$8 per share exercisable for periods up to six years had been granted to certain officers and employees, none of which had been exercised. Options to purchase an additional 1,000 shares on the same terms were granted in February 1966.
- (c) 156,250 shares are reserved for possible issue on conversion of the debentures referred to in note 5 above.

7. Two of the subsidiary companies are participants in a non-contributory joint industry-union pension plan covering hourly-paid employees which went into effect on January 1, 1962. To provide for the pensions payable on retirement, the companies have been contributing amounts (based on actuarial rates determined by an independent actuary) which include the estimated current service costs plus the instalment funding of past service costs over the 10-year period 1962 to 1971 inclusive. Contributions to the plan since its inception have been: 1962—\$29,816; 1963—\$31,929; 1964—\$38,500; 3 months ended March 31, 1965—\$10,718; 9 months ended December 31, 1965—\$34,706.

AUDITORS' REPORT

To the Directors of STANCOR LIMITED:

We have examined the consolidated balance sheet and pro forma consolidated balance sheet of Stancor Limited and subsidiary companies as at December 31, 1965. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet presents fairly the consolidated financial position of the companies as at December 31, 1965, in accordance with generally accepted accounting principles. In our opinion also the accompanying pro forma consolidated balance sheet presents fairly the consolidated financial position of the companies as at the same date after giving effect to the changes set forth in Note 2, in accordance with generally accepted accounting principles.

Toronto, Canada.

March 4, 1966.

CLARKSON, GORDON & CO.

Chartered Accountants.

STATUTORY INFORMATION

1. The full name of the Company is STANCOR LIMITED (hereinafter called the "Company") and the address of the head office of the Company is Britannica House, 151 Bloor Street West, Toronto, Ontario.
2. The Company was incorporated under the laws of the Province of Ontario by Letters Patent dated March 8, 1965. The following Supplementary Letters Patent have been issued to the Company: (a) Supplementary Letters Patent dated May 3, 1965 increasing the authorized capital of the Company from 40,000 shares without par value to 500,000 shares without par value, (b) Supplementary Letters Patent dated October 21, 1965 increasing the authorized capital of the Company from 500,000 shares without par value to 750,000 shares without par value and (c) Supplementary Letters Patent dated February 25, 1966 designating the 750,000 shares as common shares and increasing the authorized capital of the Company by creating 225,000 First Preference Shares with a par value of \$10 each, issuable in series, and (d) Supplementary Letters Patent dated February 28, 1966 providing that the first series of the said First Preference Shares shall consist of 150,000 shares designated as 6% Cumulative Redeemable Convertible First Preference Shares 1966 Series.
3. The general nature of the business transacted or to be transacted by the Company either through subsidiaries or directly is that of furniture manufacturing and the management of companies engaged in furniture manufacturing and related lines.
4. The name in full, present occupation or description and home address in full of each of the Directors and Officers of the Company are as follows:

OFFICERS

| | | |
|-------------------------------------|---------------------------------|---|
| DOUGLAS RUDYARD ANNETT..... | Chairman of the Board | 80 Glengrove Avenue West, Toronto, Ontario |
| JOSEPH WILLIAM STACK, JR..... | President | 41 Stratheden Road, Toronto, Ontario |
| FREDERICK HENRY PEPPLER..... | Vice-President | 11 Tally Lane, Willowdale, Ontario |
| ROBERT LEGAT TREVORROW BAILLIE..... | Vice-President and Treasurer | 88 Glencairn Avenue, Toronto, Ontario |
| ALLAN LESLIE BEATTIE, Q.C..... | Secretary | 89 Douglas Drive, Toronto, Ontario |

DIRECTORS

| | | |
|--------------------------------|----------------------|---|
| DOUGLAS RUDYARD ANNETT..... | Investment Dealer | 80 Glengrove Avenue West, Toronto, Ontario |
| ALLAN LESLIE BEATTIE, Q.C..... | Solicitor | 89 Douglas Drive, Toronto, Ontario |
| ROBERT DUCAS..... | Executive | Pawling, New York, New York |
| ALEC ROY JACOBS..... | Executive | 37 Glenallen Road, Toronto, Ontario |
| RICHEY BRYCE LOVE..... | Solicitor | 714 Earl Grey Crescent, Calgary, Alberta |
| FREDERICK HENRY PEPPLER..... | Executive | 11 Tally Lane, Willowdale, Ontario |
| JOSEPH WILLIAM STACK, JR..... | Executive | 41 Stratheden Road, Toronto, Ontario |

5. The auditors of the Company are Messrs. Clarkson, Gordon & Co., Chartered Accountants, 15 Wellington Street West, Toronto, Ontario.

6. Guaranty Trust Company of Canada, at its stock transfer offices at 366 Bay Street in the City of Toronto, P.O. Box 328, 261-10th Street in the Town of Hanover, Ontario and 247 St. James Street West in the City of Montreal, Quebec, is the transfer agent and registrar for the common shares in the capital of the Company.

Montreal Trust Company at its stock transfer offices at 15 King Street West in the City of Toronto, Ontario, and at 777 Dorchester Boulevard West in the City of Montreal, Quebec, will be the transfer agent and registrar for the 6% Cumulative Redeemable Convertible First Preference Shares 1966 Series with a par value of \$10 each.

The Royal Trust Company is the Trustee under the Debenture Trust Indenture pursuant to which \$1,250,000 aggregate principal amount of 6½% Convertible Collateral Trust Debentures (hereinafter referred to as the "Debentures") have been issued and registers upon which coupon Debentures are and may be registered as to principal and upon which fully registered Debentures are and shall be registered as to principal and interest and upon which transfers of Debentures so registered are and shall be recorded are kept by The Royal Trust Company at its principal offices in the cities of Toronto and Montreal which are presently located at 66 King Street West and 105 St. James Street West respectively.

7. The authorized capital of the Company consists of 225,000 First Preference Shares with a par value of \$10 each, issuable in series, and 750,000 common shares without par value of which 271,000 common shares have been issued and are outstanding as fully paid and non-assessable. The first series of the First Preference Shares authorized to be issued consists of 150,000 shares designated as 6% Cumulative Redeemable Convertible First Preference Shares 1966 Series.

8. The first preference shares with a par value of \$10 each (hereinafter called "first preference shares") have attached thereto, as a class, preferences, rights, conditions, restrictions, limitations and prohibitions substantially as follows:

(a) The first preference shares may at any time or from time to time be issued in one (1) or more series, each series to consist of such number of shares as may before the issue thereof be determined by the directors; the directors of the Company may (subject as hereinafter provided) by resolution fix from time to time before the issue thereof the designation, preferences, rights, conditions, restrictions, limitations or prohibitions attaching to the first preference shares of each series including, without limiting the generality of the foregoing, the rate of preferential dividends, the dates of payment thereof, the redemption price and terms and conditions of redemption, conversion rights (if any) and any sinking fund or other provisions, the whole subject to the issue of Supplementary Letters Patent setting forth the designation, preferences, rights, conditions, restrictions, limitations or prohibitions attaching to the first preference shares of such series;

(b) The first preference shares of each series shall be entitled to preference over the common shares of the Company, and any other shares ranking junior to the first preference shares, with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs and may also be given such other preferences over the common shares of the Company and any other shares ranking junior to the first preference shares as may be determined as to the respective series authorized to be issued;

(c) The first preference shares of each series shall rank on a parity with the first preference shares of every other series with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs; no series of first preference shares shall be authorized which shall have a dividend rate in excess of eight per cent (8%) per annum on the amounts from time to time paid up thereon or be entitled to receive upon liquidation, dissolution or winding up or upon redemption a sum in excess of one hundred and ten per cent (110%) of the amounts paid up thereon plus a sum equivalent to all unpaid dividends accumulated thereon;

(d) No dividends shall at any time be declared or paid on or set apart for payment on any shares of the Company ranking junior to the first preference shares unless all dividends up to and including the dividend payable for the last completed half year on each series of the first preference shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such declaration or payment or setting apart for payment on such shares of the Company ranking junior to the first preference shares nor shall the Company call for redemption or purchase for cancellation or reduce or otherwise pay off less than all of the first preference shares then outstanding or any shares of the Company ranking junior to the first preference shares unless all dividends up to and including the dividend payable for the last completed half year on each series of the first preference shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such call for redemption, purchase, reduction or other payment off;

(e) The holders of the first preference shares shall not be entitled as such (except as hereinafter specifically provided) to receive notice of or to attend any meeting of the shareholders of the Company or to vote at any such meeting (but shall be entitled to receive notice of meetings of shareholders of the Company called for the purpose of authorizing the dissolution of the Company or the sale of its undertaking or a substantial part thereof) unless and until the Company from time to time shall fail to pay in the aggregate four (4) half yearly dividends on the first preference shares of any one (1) series on the dates on which the same should be paid according to the terms thereof and unless and until four (4) half yearly dividends on such shares shall remain outstanding and be unpaid whether or not consecutive and whether or not such dividends have been declared and whether or not there are any moneys of the Company properly applicable to the payment of dividends; thereafter but only so long as any dividends on the first preference shares of any series remain in arrears the holders of the first preference shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Company and shall be entitled to one (1) vote in respect of each first preference share held and shall be entitled, voting separately and as a class, to elect two-fifths of the total number of the directors of the Company or, if the total number of the directors be not evenly divisible by two-fifths, then the next highest number above two-fifths; nothing herein contained shall be deemed to limit the right of the Company from time to time to increase or decrease the number of its directors;

Notwithstanding anything contained in the by-laws of the Company, all directors of the Company in office at any time when the right to elect directors shall accrue to the holders of first preference shares as herein provided, or who may be elected as directors thereafter and before a meeting of shareholders hereinafter referred to shall retire at the next annual meeting of shareholders or at a general meeting of shareholders which may be held for the purpose of electing directors at any time after the accrual of such right; any such general meeting of shareholders to elect directors may be called upon not less than twenty (20) days' written notice and shall be called by the secretary of the Company upon the written request of the holders of record of at least one-tenth (1/10) of the outstanding first preference shares; in default of the calling of such general meeting by the secretary within ten (10) days after the making of such request, such meeting may be called by any holder of record of first preference shares; any vacancy or vacancies occurring among members of the board elected to represent the holders of first preference shares in accordance with the foregoing provisions may be filled by the board of directors with the consent and approval of the remaining director or directors elected to represent the holders of first preference shares but if there be no such remaining director or directors, the board may elect or appoint sufficient holders of first preference shares to fill the vacancy or vacancies; whether or not such vacancy or vacancies is or are so filled by the board, the holders of record of at least one-tenth (1/10) of the outstanding first preference shares shall have the right to require the secretary of the Company to call a meeting of the holders of first preference shares for the purpose of filling the vacancy or vacancies and the provisions of this paragraph shall apply with respect to the calling of any such meeting;

Notwithstanding anything contained in the by-laws of the Company (i) upon any termination of the voting rights of the holders of the first preference shares, the term of office of the directors elected to represent the holders of first preference shares shall forthwith terminate and (ii) the holding of one (1) first preference share shall be sufficient to qualify a person for election or appointment as a director of the Company to represent the holders of first preference shares;

(f) The authorization required by subsection 4 of section 33 of The Corporations Act to delete or vary any preference, right, condition, restriction, limitation or prohibition attaching to the first prefer-

ence shares as a class or to create preference shares ranking in priority to or on a parity with the first preference shares may be given by at least two-thirds ($\frac{2}{3}$) of the votes cast at a meeting of the holders of the first preference shares duly called for that purpose and held upon at least fifteen (15) days' notice at which the holders of at least a majority of the outstanding first preference shares are present or represented by proxy; if at any such meeting the holders of a majority of the outstanding first preference shares are not present or represented by proxy within one-half ($\frac{1}{2}$) an hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than twenty-one (21) days later and to such time and place as may be appointed by the chairman and not less than fifteen (15) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called; at such adjourned meeting the holders of first preference shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than two-thirds ($\frac{2}{3}$) of the votes cast at such meeting shall constitute the authorization of the holders of the first preference shares referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed by the by-laws of the Company with respect to meetings of shareholders.

The first series of the said class of first preference shares consists of one hundred and fifty thousand (150,000) shares with a par value of \$10 each designated "6% Cumulative Redeemable Convertible First Preference Shares 1966 Series" (hereinafter called "preference shares 1966 Series") and, in addition to the preferences, rights, conditions, restrictions, limitations and prohibitions attaching to the first preference shares as a class, have attached thereto preferences, rights, conditions, restrictions, limitations and prohibitions substantially as follows:

(1) The holders of the preference shares 1966 Series shall be entitled to receive and the Company shall pay thereon as and when declared by the board of directors out of the moneys of the Company properly applicable to the payment of dividends fixed cumulative preferential cash dividends at the rate of six per cent (6%) per annum payable half-yearly on the first day of February and August in each year on the amounts from time to time paid up thereon; such dividends shall accrue from such date or dates not later than six (6) months after the respective dates of issue as may in the case of each issue be determined by the board of directors of the Company or in case no date be so determined then from the date of allotment; cheques of the Company payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted) shall be issued in respect of such dividends; if on any dividend payment date the dividend payable on such date is not paid in full on all of the preference shares 1966 Series then issued and outstanding, such dividend or the unpaid part thereof shall be paid on a subsequent date or dates determined by the board of directors of the Company on which the Company shall have sufficient moneys properly applicable to the payment of the same; the holders of the preference shares 1966 Series shall not be entitled to any dividends other than or in excess of the cash dividends hereinbefore provided for;

(2) In the event of the liquidation, dissolution or winding up of the Company or any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs the holders of the preference shares 1966 Series shall be entitled to receive the amount paid up on such shares together with a premium of six per cent (6%) thereof and all accrued and unpaid preferential dividends (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last half yearly period for which dividends have been paid up to the date of distribution) before any amount shall be paid or any property or assets of the Company distributed to the holders of common shares or shares of any other class ranking junior to the preference shares 1966 Series; after payment to the holders of the preference shares 1966 Series of the amount so payable to them they shall not be entitled to share in any further distribution of the property or assets of the Company;

(3) Subject to the provisions of clause (d) of the provisions attaching to the first preference shares as a class, the Company may at any time or times purchase (if obtainable) for cancellation all or any part of the preference shares 1966 Series outstanding from time to time in the market (including purchase through or from an investment dealer or firm holding membership on a recognized stock exchange) or by invitation for tenders addressed to all the holders of record of the preference shares

1966 Series outstanding at the lowest price or prices at which, in the opinion of the directors, such shares are obtainable but not exceeding the price at which at the date of purchase such shares are redeemable as provided in clause (4) hereof, plus costs of purchase. If upon any invitation for tenders under the provisions of this clause the Company shall receive tenders at the lowest price which the Company may be willing to pay for more preference shares 1966 Series than the Company is prepared to accept, the preference shares 1966 Series so tendered shall be purchased as nearly as may be pro rata (disregarding fractions) according to the number of preference shares 1966 Series so tendered by each holder thereof;

(4) Subject to the provisions of clause (d) of the provisions attaching to the first preference shares as a class, the Company may upon giving notice as hereinafter provided redeem at any time from and after March 1, 1969 the whole or from time to time any part of the then outstanding preference shares 1966 Series on payment for each share to be redeemed of the amount paid up on such share together with a premium of six per cent (6%) thereof and all accrued and unpaid preferential dividends (which for such purpose shall be calculated as if the dividends on the preference shares 1966 Series were accruing for the period from the expiration of the last half-yearly period for which dividends have been paid up to the date of such redemption);

(5) In any case of redemption of preference shares 1966 Series under the provisions of clause (4) hereof, the Company shall at least thirty (30) days before the date specified for redemption mail to each person who at the date of mailing is a registered holder of preference shares 1966 Series to be redeemed a notice in writing of the intention of the Company to redeem such preference shares 1966 Series; such notice shall be mailed in a prepaid letter addressed to each such shareholder at his address as it appears on the books of the Company or in the event of the address of any such shareholder not so appearing then to the last known address of such shareholder, provided, however, that accidental failure or omission to give any such notice to one (1) or more of such holders shall not affect the validity of such redemption; such notice shall set out the redemption price and the date on which redemption is to take place and if part only of the preference shares 1966 Series held by the person to whom it is addressed is to be redeemed the number thereof so to be redeemed; on or after the date so specified for redemption the Company shall pay or cause to be paid to or to the order of the registered holders of the preference shares 1966 Series to be redeemed the redemption price on presentation and surrender at the head office of the Company or any other place designated in such notice of the certificates representing the preference shares 1966 Series so called for redemption; such payment shall be made by cheques payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted); if a part only of the preference shares 1966 Series represented by any certificate shall be redeemed, a new certificate for the balance shall be issued at the expense of the Company; from and after the date specified for redemption in any such notice, the preference shares 1966 Series called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be made upon presentation of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected; the Company shall have the right at any time after the mailing of notice of its intention to redeem any preference shares 1966 Series as aforesaid to deposit the redemption price of the preference shares 1966 Series so called for redemption or of such of the said shares represented by certificates as have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption to a special account in any chartered bank or any trust company in Canada named in such notice to be paid without interest to or to the order of the respective holders of such preference shares 1966 Series called for redemption upon presentation and surrender to such bank or trust company of the certificates representing the same and upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the preference shares 1966 Series in respect whereof such deposit shall have been made shall be redeemed and the rights of the holders thereof after such deposit or such redemption date, as the case may be, shall be limited to receiving without interest their proportionate part of the total redemption price so deposited against presentation and surrender of the said certificates held by them respectively; any interest allowed on any such deposit shall belong to the Company;

(6) So long as any of the preference shares 1966 Series are outstanding, the Company shall not
(i) declare or pay any dividend (other than stock dividends in shares of the Company ranking

junior to the preference shares 1966 Series) on any of its shares at any time outstanding and ranking junior to the preference shares 1966 Series; or

- (ii) redeem, reduce, purchase or otherwise pay off any of its shares at any time outstanding and ranking junior to the preference shares 1966 Series (except out of the proceeds of an issue of shares ranking junior to the preference shares 1966 Series made at any time after the first day of March, A.D. 1966, and prior to or contemporaneously with any such redemption, reduction, purchase or payment); or
- (iii) elect to pay any tax on undistributed income under the provisions of Section 105 of the Income Tax Act (Revised Statutes of Canada 1952, Chapter 148) as now enacted or as the same may from time to time be amended or re-enacted or elect to pay any tax under any similar provisions,

if immediately after giving effect to any such action (a) consolidated current assets of the Company and its subsidiaries would be less than 200% of consolidated current liabilities of the Company and its subsidiaries, or (b) total equity of the Company would be less than \$3,200,000;

For the purposes of this clause (6) the directors of the Company may from time to time determine the consolidated current assets of the Company and its subsidiaries, the consolidated current liabilities of the Company and its subsidiaries and the total equity of the Company as of a date not more than thirty (30) days prior to the making of such determination and may determine such consolidated current assets, consolidated current liabilities and total equity to be not less than a stated amount without determining the exact amount thereof; in making any such determination, the directors shall consider and may rely on the last available audited consolidated balance sheet of the Company and its subsidiaries and/or the last available audited balance sheet of the Company reported on by the Company's auditors and may consider and rely on the last available unaudited consolidated balance sheet of the Company and its subsidiaries and/or the last available unaudited balance sheet of the Company prepared by the accounting officers of the Company and upon any other financial statement, report or other data which they may consider reliable provided that the directors shall not make any such determination on the basis of any such balance sheet, statement, report or other data if to their knowledge any event has happened which would materially and adversely affect such consolidated current assets, consolidated current liabilities and total equity as determined on such basis; upon any determination having been made by the directors under the provisions hereof the consolidated current assets of the Company and its subsidiaries, the consolidated current liabilities of the Company and its subsidiaries and the total equity of the Company as at any date within a period of ninety (90) days following the date as of which such determination is made (unless any further determination of such consolidated current assets, consolidated current liabilities and total equity is so made within the said period) shall be conclusively deemed to be not less than the amount stated in such determination and such determination shall be conclusive and binding on the Company and the holders of shares of every class;

(7) Upon and subject to the terms and conditions hereinafter set forth, each preference share 1966 Series shall be convertible at the option of the holder thereof at any time prior to the close of business on the first day of March, A.D. 1978, subject as hereinafter provided, into fully paid and non-assessable common shares of the Company upon the following basis: (i) one and one-quarter ($1\frac{1}{4}$) common shares for each one (1) preference share 1966 Series in respect of which the conversion privilege is exercised on or before the first day of March, A.D. 1973, and (ii) one (1) common share for each one (1) preference share 1966 Series in respect of which the conversion privilege is exercised after the first day of March, A.D. 1973 and on or before the first day of March, A.D. 1978; in the case of any preference share 1966 Series which may be called for redemption, notwithstanding anything herein contained, the right of conversion thereof shall cease and terminate at the close of business on the third day preceding the date fixed for redemption, provided however that, if the Company shall fail to redeem such preference share 1966 Series in accordance with the notice of redemption, the right of conversion shall thereupon be restored and continue as before; if upon the conversion of one (1) or more preference shares 1966 Series at the rates herein provided into the maximum number of common shares into which such preference shares 1966 Series are convertible a holder of preference shares 1966 Series shall become entitled to a fraction of a common share, a bearer fractional certificate shall be issued in respect thereof;

In case the Company shall at any time or from time to time after the first day of March, A.D. 1966 and on or before the close of business on the first day of March, A.D. 1978 issue or sell any additional

equity shares (as hereinafter defined) or be deemed as hereinafter provided to issue additional equity shares for a consideration per share (calculated as hereinafter provided) less than the conversion price (as hereinafter defined) in effect immediately prior to the issue or sale or deemed issue of such additional equity shares, then and thereafter successively upon each such issue or sale the conversion price in effect immediately prior to the issue or sale or deemed issue of such additional equity shares shall forthwith be and be deemed to be reduced to a price (computed in the case of fractions to the next higher cent) determined by dividing (a) an amount equal to the sum of (i) the number of equity shares of the Company outstanding on the first day of March, A.D. 1966 multiplied by Eight dollars (\$8) if such computation is made on or before the first day of March, A.D. 1973, or multiplied by Ten dollars (\$10) if such computation is made after the first day of March, A.D. 1973 and on or before the first day of March, A.D. 1978, plus (ii) the aggregate consideration received or deemed to have been received by the Company for additional equity shares issued or sold or deemed to have been issued after the first day of March, A.D. 1966, by (b) an amount equal to the sum of (i) the number of equity shares outstanding on the first day of March, A.D. 1966 (increased or decreased to the extent that the number of equity shares outstanding on the first day of March, A.D. 1966 shall thereafter be increased or decreased by any redivision or subdivision or consolidation thereof) plus (ii) the number of all additional equity shares of the Company issued or sold or deemed to have been issued after the first day of March, A.D. 1966 (increased or decreased to the extent that the number of such equity shares shall after the issue thereof be increased or decreased or would, in the case of a deemed issue, be increased or decreased if outstanding by any redivision or subdivision or consolidation thereof); provided that, if the conversion price is so adjusted at any time or from time to time on or before the first day of March, A.D. 1973, it shall immediately be readjusted in accordance with the foregoing on the second day of March, A.D. 1973 as if all additional equity shares theretofore issued or sold or deemed to have been issued had only been issued or deemed to have been issued on the second day of March, A.D. 1973; for the purpose of any adjustment of the conversion price as aforesaid, the conversion price applicable at any particular time shall be an amount expressed in dollars equal to the quotient obtained by dividing ten (10) by the number of common shares into which each preference share 1966 Series is convertible at the particular time and the following provisions shall be applicable:

- (i) In case at any time the Company shall in any manner grant any rights to subscribe for or to purchase, or any options for the purchase of, equity shares or any shares or securities convertible into or exchangeable for equity shares (such convertible or exchangeable shares or securities being herein called "convertible securities"), whether or not such rights or options or the right to convert or exchange any such convertible securities are immediately exercisable, and the price per share for which equity shares are issuable upon the exercise of such rights or options or upon conversion or exchange of such convertible securities (determined by dividing (a) the total amount, if any, received or receivable by the Company as consideration for the granting of such rights or options, plus the minimum aggregate amount of additional consideration payable to the Company upon the exercise of such rights or options, plus, in the case of such convertible securities, the minimum aggregate amount of additional consideration, if any, payable upon the conversion or exchange thereof, by (b) the total maximum number of equity shares issuable upon the exercise of such rights or options or issuable upon or resulting from the conversion or exchange of all such convertible securities issuable upon the exercise of such rights or options) shall be less than the conversion price in effect immediately prior to the time of the granting of such rights or options to purchase equity shares or convertible securities, then the total maximum number of equity shares issuable upon the exercise of such rights or options or issuable upon or resulting from the conversion or exchange of the total maximum amount of such convertible securities issuable upon the exercise of such rights or options shall (as of the date of granting such rights or options) be deemed to be outstanding and to have been issued for such price per share; no further adjustment of the conversion price shall be made upon the actual issue of such equity shares or of such convertible securities upon exercise of such rights or options or upon the actual issue of such equity shares upon conversion or exchange of such convertible securities, except as otherwise provided in sub-clause (iii) below;
- (ii) In case the Company shall in any manner issue or sell any convertible securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, and the price

per share for which equity shares are issuable upon or resulting from such conversion or exchange (determined by dividing (a) the total amount received or receivable by the Company as consideration for the issue or sale of such convertible securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange thereof, by (b) the total maximum number of equity shares issuable upon or resulting from the conversion or exchange of all such convertible securities), shall be less than the conversion price in effect immediately prior to the time of such issue or sale, then the total maximum number of equity shares issuable upon or resulting from the conversion or exchange of all such convertible securities shall (as of the date of the issue or sale of such convertible securities) be deemed to be outstanding and to have been issued for such price per share; provided that, except as otherwise specified in sub-clause (iii) below, (A) no further adjustment of the conversion price shall be made upon the actual issue of such equity shares upon or in respect of the equity shares resulting from the conversion or exchange of such convertible securities, and (B) if any such issue or sale of such convertible securities is made upon exercise of any rights to subscribe for or to purchase or any option to purchase any such convertible securities for which adjustments of the conversion price have been or are to be made pursuant to sub-clause (i) above, no further adjustment of the conversion price shall be made by reason of such issue or sale;

- (iii) Upon the happening of any of the following events, namely, if the purchase price provided for in any rights or options referred to in sub-clause (i) above, the additional consideration, if any, payable upon the conversion or exchange of convertible securities referred to in sub-clauses (i) or (ii) above or the rate at which any convertible securities referred to in sub-clauses (i) or (ii) above are convertible into or exchangeable for equity shares shall change (other, in each case, than under or by reason of provisions designed to protect against dilution), the conversion price in effect at the time of such event shall forthwith be readjusted to the conversion price which would have been in effect at such time had such rights, options or convertible securities still outstanding at such time been initially granted, issued or sold and the conversion price initially adjusted as provided in sub-clauses (i) and (ii) above, whichever was applicable, except that the minimum aggregate amount of additional consideration payable and the total maximum number of shares issuable shall be determined after giving effect to such event (and any prior event or events); and, on the expiration of any such option or right or the termination of any such right to convert or exchange such convertible securities, the conversion price then in effect shall forthwith be increased to the conversion price which would have been in effect at the time of such expiration or termination after adjustment as herein provided only for the number of equity shares actually issued on or resulting from the exercise of such option or right or the conversion or exchange of such convertible securities;
- (iv) In case the Company shall declare a dividend or make any other distribution upon any shares of the Company payable in equity shares or convertible securities, any equity shares or convertible securities, as the case may be, issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration;
- (v) In case any equity shares or convertible securities or any rights or options to purchase any such equity shares or convertible securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Company therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Company in connection therewith; in case any equity shares or convertible securities or any rights or options to purchase any such equity shares or convertible securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company shall be deemed to be the fair value of such consideration as determined by the board of directors of the Company, without deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Company in connection therewith;
- (vi) In case the Company shall take a record of the holders of its equity shares for the purpose of entitling them (a) to receive a dividend or other distribution payable in equity shares or in

convertible securities, or (b) to subscribe for or purchase equity shares or convertible securities, then such record date shall be deemed to be the date of the issue or sale of the equity shares deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be;

- (vii) For the purpose of any adjustment in the conversion price required to be made in accordance with the provisions of this clause (7), the aggregate consideration received by the Company for additional equity shares shall be the consideration received by the Company computed in accordance with the foregoing provisions of this clause (7) plus, if the computation is being made after the first day of March, A.D. 1973, an amount of Two dollars (\$2) for each equity share issued or sold or deemed to have been issued in accordance with the foregoing provisions on or before the first day of March, A.D. 1973;

In case the Company shall at any time redivide or subdivide its outstanding equity shares into a greater number of shares, the conversion price in effect immediately prior to such subdivision shall be proportionately reduced and the number of common shares issuable on the conversion of the preference shares 1966 Series shall be proportionately increased and, conversely, in case the outstanding equity shares of the Company shall be redivided or consolidated into a smaller number of shares, the conversion price in effect immediately prior to such redivision or consolidation shall be proportionately increased and the number of common shares issuable on the conversion of the preference shares 1966 Series shall be proportionately decreased;

In case of any reclassification or change of outstanding equity shares (other than a change in par value or from par value to no par value or from no par value to par value or as a result of a subdivision or consolidation) or in case of any amalgamation, consolidation or merger of the Company with or into another corporation or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety, then, as a condition of such reclassification, change, amalgamation, consolidation, merger, sale or conveyance, the holder of each of the preference shares 1966 Series then outstanding shall thereafter have the right to convert such preference share 1966 Series into the kind and amount of shares and other securities and property receivable upon such reclassification, change, amalgamation, consolidation, merger, sale or conveyance which the holder of a number of common shares equal to the number of shares immediately theretofore receivable by such holder upon the exercise of the right of conversion would have received as a result of such reclassification, change, amalgamation, consolidation, merger, sale or conveyance;

Anything in this clause (7) to the contrary notwithstanding, the Company shall not be required to make any adjustment of the conversion price in any case in which the amount by which such conversion price would be reduced or increased in accordance with the foregoing provisions of this clause (7) is less than twenty-five cents (25¢) per common share, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which together with any adjustments so carried forward shall amount to twenty-five cents (25¢) per common share or more;

Anything in this clause (7) to the contrary notwithstanding, the conversion price shall not exceed a maximum of Eight dollars (\$8) per common share on or before the first day of March, A.D. 1973; thereafter and on or before the first day of March, A.D. 1978, the conversion price shall not exceed a maximum of Ten dollars (\$10) per common share; provided that, in case the equity shares of the Company at any time outstanding shall be redivided or subdivided into a greater or redivided or consolidated into a lesser number of equity shares, such maximum shall thereupon be an amount which shall bear the same relation to the maximum established immediately prior to such redivision, subdivision or consolidation as the total number of equity shares outstanding immediately prior to such redivision, subdivision or consolidation shall bear to the total number of equity shares outstanding immediately after such redivision, subdivision or consolidation;

In the event of any adjustment of the conversion price in accordance with this clause (7), each preference share 1966 Series shall thereafter be convertible into a number of common shares determined by dividing ten (10) by the conversion price resulting from such adjustment;

The Company shall from time to time, as soon as possible after the occurrence of any event which requires an adjustment in the conversion price as hereinbefore in this clause (7) provided, cause its auditors to determine the adjusted conversion price which determination shall be conclusive and binding for all purposes;

In case at any time

- (i) the Company shall pay any dividend payable in shares upon its equity shares or make any other distribution (other than cash dividends) to the holders of its equity shares, or
- (ii) the Company shall offer for subscription pro rata to the holders of its equity shares any additional shares of any class or other rights, or
- (iii) there shall be any capital reorganization or reclassification of the capital of the Company or amalgamation of the Company with, or sale of all or substantially all of its assets to, another corporation, or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company, then, in any one or more of such cases, the Company shall give to each holder of preference shares 1966 Series (a) at least twenty (20) days' prior notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, sale, amalgamation, dissolution, liquidation or winding up, and (b) in the case of any such reorganization, reclassification, amalgamation, sale, dissolution, liquidation or winding up, at least twenty (20) days' prior notice of the date or approximate date when the same shall take place; such notice in accordance with the foregoing sub-clause (a) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holder of equity shares shall be entitled thereto; such notice in accordance with the foregoing sub-clause (b) shall also specify the date on which the holders of equity shares shall be entitled to exchange their equity shares for, or to receive, shares, securities or other property deliverable upon such reorganization, reclassification, amalgamation, sale, dissolution, liquidation or winding up, as the case may be;

For the purposes of this clause (7), the following terms shall have the following respective meanings:

- (a) "equity shares" means the common shares without nominal or par value in the capital of the Company as said shares are presently constituted and such shares of any other class into which said common shares may hereafter be changed or reclassified and shall also include any share or any class of shares in the capital of the Company hereafter authorized which shall not limit the holders thereof to a fixed sum or percentage in respect of dividends and in the distribution of assets upon the liquidation, dissolution or winding up of the Company;
- (b) "additional equity shares" means any equity shares hereafter issued or sold or hereafter deemed to have been issued pursuant to the provisions of this clause (7) other than
 - (i) equity shares which may be issued upon the exercise of the right of conversion attaching to \$1,250,000 principal amount of 6% Convertible Collateral Trust Debentures of the Company issued pursuant to a Trust Indenture dated as of November 15, 1965 and made between the Company and The Royal Trust Company, as Trustee, and
 - (ii) equity shares which may be issued upon the exercise of the right of purchase conferred upon the bearers of share purchase warrants entitling such bearers to purchase an aggregate of 185,000 common shares in the capital of the Company at any time on or before June 15, 1975, and
 - (iii) common shares which may be issued upon the exercise of options granted or to be granted by the Company to key officers or full time employees of the Company or its subsidiaries to purchase not in excess of 20,000 common shares in the capital of the Company;

The holder of preference shares 1966 Series desiring to convert his preference shares 1966 Series into common shares in accordance with the foregoing shall surrender the certificate or certificates representing his preference shares 1966 Series so to be converted to the Company at its head office or to the

transfer agent, if any, for the time being of the preference shares 1966 Series together with a written request for such conversion in such form and with such verification or signature as the directors of the Company may from time to time require; the conversion shall be deemed to take effect as of the date upon which the said certificate or certificates shall be surrendered to the Company at its head office or to the transfer agent, as the case may be, accompanied by the said written request unless such date be a Saturday or a holiday in which event it shall take effect on the next business day; in the event that part only of the preference shares 1966 Series represented by any certificate shall be converted, a certificate for the remainder of the preference shares 1966 Series represented by the said certificate shall be delivered to the holder without charge; there shall be no payment or adjustment on account of any accumulated or unpaid dividends on the preference shares 1966 Series converted or on account of any dividends on the common shares resulting from such conversion;

(8) The Company shall not issue any first preference shares in excess of the One Hundred and Fifty Thousand (150,000) preference shares 1966 Series without the prior approval of the holders of the preference shares 1966 Series given as hereinafter specified unless

- (i) total equity of the Company is at least equal to two (2) times the aggregate amount paid up on all first preference shares and any shares ranking in any way prior to or on a parity with the first preference shares which will be outstanding immediately after such issue, and
- (ii) average annual consolidated net earnings of the Company and its subsidiaries (as herein defined) for the last two completed fiscal years of the Company next preceding such issue shall have been at least equal to four (4) times the annual dividend requirements on all first preference shares and any shares ranking in any way prior to or on a parity with the first preference shares which will be outstanding immediately after such issue;

a report of the Company's auditors for the time being as to whether the Company is or is not entitled to issue any first preference shares without the prior approval aforesaid shall be conclusive and binding on the Company and the holders of shares of every class;

(9) No class of shares may be created or issued ranking as to capital or dividends prior to or on a parity with the first preference shares without the approval of the holders of the preference shares 1966 Series given as hereinafter specified nor shall the authorized amount of first preference shares be increased without such approval; provided that nothing in this clause (9) contained shall prevent the Company from issuing additional series of the first preference shares without such approval as permitted by clause (8) hereof;

(10) In these share provisions, the following terms shall have the following respective meanings:

- (a) "subsidiary company" or "subsidiary" means any corporation or company of which more than Fifty (50%) per cent of the outstanding voting shares are for the time being owned by or held for the Company and/or any subsidiary of the Company and includes any corporation or company in like relation to a subsidiary; "voting shares" as used in this definition means shares of any class carrying voting rights but shall not include shares of any class carrying limited voting rights or carrying voting rights by reason of the happening of any contingency whether or not such contingency shall have happened;
- (b) "consolidated net earnings" means all the gross earnings and income of the Company and its subsidiary companies from all sources less all administrative, selling and operating charges and expenses of every character and all fixed charges of the Company and its subsidiary companies (but excluding gains or losses on the disposal of investments and fixed assets) arrived at on a consolidated basis in accordance with generally accepted accounting practice; without limitation of the generality of the foregoing, operating expenses shall include insurance, maintenance, repairs, renewals (except such expenditures for renewals as are charged to capital account in accordance with generally accepted accounting practice), rentals, licenses, taxes (including taxes on income) and all interest and such provisions or allowances for bad and doubtful debts as the directors in their discretion, with the approval of the Company's auditors may determine, and, in addition to actual expenditures for maintenance, reasonable allowance for depreciation; the net earnings of any subsidiary company for the purpose of this definition shall only include such part of the net earnings and income of such subsidiary com-

pany calculated as aforesaid as under generally accepted accounting practice is applicable to those shares of such subsidiary company which are held by the Company or any other subsidiary company; if, at the time of determining consolidated net earnings for any past period, the Company or any subsidiary has acquired, is in the process of acquiring, or proposes to acquire, any property or any shares of any other company (sufficient with any shares of such other company already owned by the Company or a subsidiary to result in such other company becoming a subsidiary) and if the net proceeds of a then proposed issue of first preference shares are to be applied directly or indirectly towards the cost of or in reimbursement of the cost of the acquisition of such property or shares (as to which a resolution of the directors shall be conclusive and binding) then the net earnings or net losses of such property or such other company for the same past period (calculated in accordance with the provisions herein contained respecting consolidated net earnings) shall, if in the opinion of the Company's auditors, the Company has access to data sufficient to enable such auditors to determine such net earnings or net losses, be treated as net earnings or net losses, as the case may be, in the computation of consolidated net earnings; subject to the foregoing provisions hereof, consolidated net earnings shall be determined by the auditors of the Company;

- (c) "consolidated current assets" means the total of the current assets of the Company and its subsidiaries arrived at on a consolidated basis in accordance with generally accepted accounting practice, provided always that in calculating consolidated net current assets due allowance shall be made for the minority interest, if any, in any subsidiary;
- (d) "current assets" means accounts receivable, bills and notes receivable and similar items receivable in the ordinary course of business (less such allowances for bad and doubtful debts as may be appropriate), cash on hand and in banks and in trust companies, marketable securities (other than those of the Company and its subsidiaries) valued at the lower of cost or market, prepaid interest, insurance, municipal taxes and similar prepaid expenses of a current nature, stock-in-trade, including all manufactured products of the Company and its subsidiaries, and materials and supplies necessary for the operation of the plants of the Company and its subsidiaries valued at the lower of cost or market, cash surrender value of life insurance policies in which the Company or any subsidiary is designated as beneficiary, and such other assets as are usually regarded as current by companies conducting a business similar to that of the Company or its subsidiaries, as the case may be;
- (e) "consolidated current liabilities" means the total of the current liabilities of the Company and its subsidiaries arrived at on a consolidated basis in accordance with generally accepted accounting practice, provided always that in calculating consolidated current liabilities due allowance shall be made for the minority interest, if any, in any subsidiary;
- (f) "current liabilities" means accounts payable, proper reserves for taxes, bank loans and overdrafts, accrued interest and other liabilities required to be treated as current in accordance with generally accepted accounting practice, provided that (i) liabilities under forward commitments of purchase related to the current operations of the Company and its subsidiaries, and (ii) the principal of any indebtedness which does not mature within 12 months, and (iii) liabilities to capital stock and surplus, shall not be taken into account in determining current liabilities;
- (g) "total equity" means the aggregate of the following amounts appearing on a consolidated balance sheet of the Company and its subsidiaries, namely (i) paid up capital, (ii) earned surplus or deficit, as the case may be, (iii) contributed surplus and capital surplus other than a capital surplus arising from a revaluation of assets, and (iv) any provision for deferred income taxes, after deducting from the aggregate of such amounts the amount of all intangible assets;

(11) The foregoing provisions, the provisions of this clause and the provisions of clause (12) hereof may be deleted, varied, modified, amended or amplified by supplementary letters patent but only with the approval of the holders of the preference shares 1966 Series given as hereinafter specified, in addition to any vote or authorization required by The Corporations Act;

(12) The approval of holders of the preference shares 1966 Series as to any and all matters referred to herein (in addition to or as distinct from any vote or authorization required by The Corporations Act)

may be given by resolution passed at a meeting of the holders of the preference shares 1966 Series duly called and held upon at least fifteen (15) days' notice at which the holders of at least a majority of the outstanding preference shares 1966 Series are present or represented by proxy and carried by the affirmative vote of the holders of not less than two-thirds (2/3) of the preference shares 1966 Series represented and voted at such meeting cast on a poll; if at any such meeting the holders of a majority of the outstanding preference shares 1966 Series are not present or represented by proxy within half an hour after the time appointed for the meeting, then the meeting shall be adjourned to such date being not less than twenty-one (21) days later and to such time and place as may be appointed by the chairman and at least fifteen (15) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called; at such adjourned meeting the holders of preference shares 1966 Series present in person or represented by proxy may transact the business for which the meeting was originally convened and a resolution passed thereat by the affirmative vote of the holders of not less than two-thirds (2/3) of the preference shares 1966 Series represented and voted at such adjourned meeting cast on a poll shall constitute the approval of the holders of preference shares 1966 Series referred to above; the formalities to be observed with respect to the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Company with respect to meetings of shareholders; on every poll taken at every such meeting or adjourned meeting every holder of preference shares 1966 Series shall be entitled to one vote in respect of each preference share 1966 Series held.

Any authorization required by subsection 4 of Section 33 of The Corporations Act may be given by at least two-thirds (2/3) of the votes cast at a meeting of the holders of the preference shares 1966 Series duly called for that purpose.

9. The Company has heretofore issued \$1,250,000 aggregate principal amount of 6½ % Convertible Collateral Trust Debentures (the "Debentures"), the full principal amount of which is outstanding at the date hereof.

The Debentures were issued under and subject to the provisions of a trust indenture (herein sometimes referred to as the "Debenture Trust Indenture") dated as of November 15, 1965 and entered into between the Company and The Royal Trust Company, as Trustee (hereinafter sometimes referred to as the "Debenture Trustee"). The Debentures mature on November 15, 1977 and bear interest at the rate of 6½ % per annum.

The Debentures are direct obligations of the Company and are secured by a first, fixed and specific mortgage, pledge and charge on all of the issued and outstanding shares in the capital of Peppler Bros. Company Limited ("Peppler") and The Neustadt Manufacturing Company Limited ("Neustadt") now owned or hereafter acquired by the Company.

The Debentures are not redeemable prior to November 15, 1968. From and after November 15, 1968, the Debentures are redeemable prior to maturity at the option of the Company in whole at any time or in part from time to time on not less than thirty days' notice at the principal amount thereof plus accrued interest to the date specified for redemption plus a premium of 6½ % of such principal amount if redeemed on or before November 15, 1969; thereafter such premium decreases progressively by 1 % of such principal amount on November 16, 1969 and on each succeeding November 16 to and including November 16, 1974 and by ½ of 1 % on November 16, 1975, on and after which date the Debentures are redeemable without premium.

Each Debenture is convertible at the option of the holder at any time up to the close of business on November 14, 1977 or the fifth day immediately preceding the date specified for redemption of such Debenture, whichever is the earlier, into fully paid and non-assessable shares in the capital of the Company as constituted at November 15, 1965 at a price of \$8 per share if such conversion takes place on or before November 14, 1972 and at a price of \$10 per share if such conversion takes place after November 14, 1972 and on or before November 14, 1977.

No adjustment for accrued interest on any Debenture or for dividends on the shares of the Company issuable upon conversion will be made in respect of the conversion of any Debenture. The Debenture Trust Indenture contains provision for adjustment of the conversion privilege in certain events including the issue of shares or rights or options to purchase shares at a price below the conversion price in effect at the time of such

issue and subdivision and consolidation of outstanding shares. Provision is also made in the Debenture Trust Indenture to protect the right of conversion in the event of any capital reorganization or reclassification of shares of the Company or the amalgamation of the Company with another corporation or the sale or disposition of all or substantially all of the assets of the Company.

The Company has covenanted to establish a sinking fund by paying to the Trustee amounts sufficient to retire \$70,000 principal amount of Debentures on November 15 in each of the years 1968 to 1976, inclusive. The Debentures are redeemable for sinking fund purposes on thirty days' prior notice at the principal amount thereof plus accrued interest to the date specified for redemption.

The Company is entitled to purchase Debentures in the market or by private contract at prices not exceeding the redemption price current at the time of purchase in respect of Debentures redeemed otherwise than out of sinking fund moneys plus accrued interest and reasonable costs of purchase. All Debentures purchased or redeemed (except Debentures purchased or redeemed out of sinking fund moneys) and all Debentures converted into common shares in the capital of the Company may be applied by the Company as a sinking fund credit in the manner and subject to the terms and conditions set out in the Debenture Trust Indenture.

Other than as aforesaid and other than an outstanding bank loan of the Company which will be retired from the proceeds of the sale of the securities referred to in paragraph 13 hereof, there are no bonds, debentures or other securities of the Company outstanding or proposed to be issued, which if issued will rank ahead of or *pari passu* with the securities offered by this prospectus.

10. No substantial indebtedness is to be created or assumed which is not shown in the pro forma consolidated balance sheet as at December 31, 1965 forming part of this prospectus except that the Company has a bank loan outstanding in the amount of \$500,000 incurred in connection with the costs of construction of the new factory and the additions and alterations to the existing factory as referred to under the heading "Operations" on page 2 hereof, which loan is to be repaid from the proceeds of the sale of the securities referred to in paragraph 13 hereof. Reference is also made to paragraph 14 hereof.

11. The Preference Shares 1966 Series will be convertible into common shares on the basis set forth in paragraph 8 hereof.

The Debentures are convertible into common shares on the basis set forth in paragraph 9 hereof.

The Company has issued to Annett & Company Limited pursuant to the underwriting agreement referred to in paragraph 27(ii) hereof share purchase warrants (the "Initial Warrants") entitling the bearers thereof to purchase on or before the close of business on June 15, 1975 an aggregate of 100,000 common shares in the capital of the Company at a price of \$8 per share to and including June 15, 1975. The Initial Warrants will expire at the close of business on June 15, 1975. The Initial Warrants have been issued under and pursuant to an Indenture dated as of June 1, 1965 and made between the Company and Guaranty Trust Company of Canada as Trustee as amended by a First Supplemental Indenture thereto dated as of October 4, 1965 between the same parties (which Indenture as so amended is hereinafter referred to as the "First Warrant Indenture"). The First Warrant Indenture contains provisions for adjustment to the subscription price and number of shares issuable pursuant to the privilege attaching to the Initial Warrants in certain events including a subdivision or consolidation of the common shares in the capital of the Company or any reorganization or reclassification of the share capital of the Company, or in the event of any amalgamation of the Company with another corporation or the sale of all or substantially all of its assets to another corporation, or in the event of the issue of any shares or rights or options to purchase common shares for a consideration less than the subscription price in effect at the time of such issue.

The Company proposes to issue share purchase warrants (the "Second Warrants") entitling the bearers thereof to purchase on or before June 15, 1975 an aggregate of 85,000 common shares in the capital of the Company at a price of \$8 per share to and including June 15, 1975. The Second Warrants will expire at the close of business on June 15, 1975. The Second Warrants are to be issued under and pursuant to an indenture (hereinafter referred to as the "Second Warrant Indenture") to be dated as of March 1, 1966 and to be made between the Company and Guaranty Trust Company of Canada, as Trustee. The Second Warrant Indenture will contain provisions for adjustment to the subscription price and number of common shares issuable pursuant to the privilege attaching to the Second Warrants in certain events, including a subdivision or consolidation of the common shares in the capital of the Company or any reorganization or reclassification of the share capital of the Company, or in the event of any amalgamation of the Company

with another corporation, or the sale of all or substantially all of its assets to another corporation, or in the event of the issue of any shares or rights or options to purchase common shares for a consideration less than the subscription price in effect at the time of such issue. In addition, the Company will covenant in the Second Warrant Indenture to give at least 20 days' prior notice to holders of unexercised Second Warrants of the date on which the books of the Company shall close or record be taken for (i) payment of any dividend payable in shares upon any of its common shares or the making of any distribution (other than regular cash dividends paid at an established annual rate) to the holders of its common shares (ii) the offering for subscription pro rata to the holders of its common shares of any additional shares of any class or other rights or (iii) the determining of any right to vote in respect of any capital reorganization or reclassification of the capital of the Company or the amalgamation of the Company with, or the sale of all or substantially all of its assets to, any other corporation or the voluntary dissolution, liquidation or winding up of the Company.

The names of every person having an interest either directly or indirectly to the extent of not less than 5% of the capital of Annett & Company Limited are set forth on the last page of this prospectus.

The Company has reserved an aggregate of 20,000 common shares for issue upon the exercise of stock options granted to key officers or full time employees of the Company and its subsidiaries to purchase such shares at a price of \$8 per share exercisable for periods up to six years. At the date hereof options are outstanding (subject to appropriate adjustments to give effect to any relevant change in the share capital of the Company) covering an aggregate of 20,000 shares, such options being exercisable at a price of \$8 per share over a period of six years on the basis of 1/5 of the shares covered by each such option becoming available for purchase at the end of each full year from the date such option is granted. Provision is made in each of such options for its earlier termination in the event that the employment of any such person to whom an option has been granted is terminated prior to the expiry date of such option.

Save as hereinbefore stated, no securities of the Company are covered by options outstanding or proposed to be given by the Company.

12. The Company proposes to issue and sell 150,000 Preference Shares 1966 Series and Second Warrants entitling the bearers thereof to purchase an aggregate of 85,000 common shares in the capital of the Company. The said 150,000 Preference Shares 1966 Series and 45,000 of the said 85,000 Second Warrants will be offered to the public in units each consisting of 10 Preference Shares 1966 Series and 3 Second Warrants at an offering price of \$100 per unit. The offering price of the remaining 40,000 Second Warrants is 6¢ per Second Warrant. Reference is made to paragraph 16 hereof.

Within the two preceding years the Company has issued and sold:

- (i) 115,000 shares in the capital of the Company for an aggregate consideration of \$345,000 paid in cash, all of which shares have been duly issued and allotted and are fully paid up;
- (ii) 36,000 shares in the capital of the Company for an aggregate consideration of \$199,800 representing part of the purchase price paid by the Company for the acquisition by the Company of all the issued and outstanding shares in the capital of Neustadt, 80 5% non-cumulative participating preference shares and 1,980 common shares in the capital of Pepler being all of the issued and outstanding shares in the capital of Pepler (other than 1,000 common shares owned by Neustadt). Reference is hereby made to paragraphs 22 and 27 (iii) hereof for the terms of the agreement under which such shares were issued.
- (iii) 120,000 shares in the capital of the Company and Share Purchase Warrants entitling the bearers thereof to purchase an aggregate of 100,000 shares in the capital of the Company. The aggregate consideration received by the Company for the issue of such shares and Share Purchase Warrants was \$674,000 paid in cash.
- (iv) \$1,250,000 aggregate principal of 6½% Convertible Collateral Trust Debentures referred to in paragraph 9 hereof. The aggregate consideration received by the Company for the issue of such Debentures was \$1,187,500.

No commissions were paid by the Company on the issue of the securities referred to in clauses (i), (ii), (iii) and (iv) above. Reference is made to clauses (ii) and (vii) of paragraph 27 hereof.

13. The estimated net proceeds to be derived by the Company from the sale of the 150,000 Preference Shares 1966 Series and the 85,000 Second Warrants on the basis of the same being fully taken up and paid for is \$1,502,000 less legal, auditing and other expenses in connection with the issuance thereof estimated at \$20,000 and the commission of \$90,000 referred to in paragraph 16 hereof.

14. The net proceeds to the Company from the sale by the Company of the securities referred to in paragraph 13 hereof will be used to the extent of (i) approximately \$500,000 to repay bank indebtedness of the Company incurred in connection with the cost of construction of the new factory and of the additions and alterations to the existing factory as referred to under the heading "Operations" on page 2 hereof (ii) approximately \$741,088 to cover the balance of the cost of such construction and to pay for the purchase of new machinery and equipment and (iii) approximately \$150,912 being the balance of such net proceeds for addition to the working capital of the Company. The net proceeds, exclusive of amounts required to repay the aforesaid bank indebtedness of the Company will be deposited with Montreal Trust Company to be held by it and released (i) to the extent of \$741,088 at any time and from time to time to The Austin Company Limited, the general contractor referred to in paragraph 27(v) hereof, upon receipt from time to time of written requests of the Company supported by certificates of the general contractor that moneys are required to be paid in connection with the costs of the construction mentioned above and to the vendor or vendors of the new machinery and equipment to be purchased by Peppler upon receipt from time to time of written requests of the Company supported by invoices of such vendor or vendors and (ii) the balance to be remitted to the Company upon demand to be added to its working capital.

15. No minimum amounts in the opinion of the Directors, must be raised by the issue of the said securities to provide the sum required or the balance of the sum required to pay the purchase price of any property, to meet preliminary expenses or commissions payable by the Company or to repay bank loans except that the amount of \$500,000 must be raised to repay the bank loan referred to in paragraph 14 hereof and the amount of \$90,000 must be raised to pay the commission referred to in paragraph 16 hereof.

16. By agreement dated January 31, 1966 as amended by letter agreement dated February 7, 1966 and made between the Company and Annett & Company Limited, 220 Bay Street, Toronto, Ontario acting on its own behalf as underwriter (hereinafter referred to as the "Underwriter") the Company agreed to sell and the Underwriter agreed to purchase, subject to the terms and conditions set out in the said agreement and compliance with the necessary legal formalities, 150,000 Preference Shares 1966 Series and 85,000 Second Warrants for an aggregate purchase price of \$1,502,000 payable in cash against delivery of certificates in interim or definitive form for the said Preference Shares 1966 Series and Second Warrants on or about March 21, 1966.

As stated in paragraph 12 hereof, the 150,000 Preference Shares 1966 Series and 45,000 of the said 85,000 Second Warrants are being offered in units each consisting of 10 Preference Shares 1966 Series and 3 Second Warrants. The remaining 40,000 Second Warrants of the Company being purchased by the Underwriter pursuant to the agreement aforesaid will be offered by the Underwriter at a price of 6¢ per Second Warrant. The said agreement also provides for the payment of a commission by the Company to the Underwriter of \$90,000.

17. The by-laws of the Company contain the following provisions with respect to the remuneration of the Directors:

"The remuneration (if any) to be paid to the Directors shall be such as the Board of Directors shall from time to time determine. Any remuneration so payable to a Director who is also an officer or employee of the Company or who is counsel or solicitor to the Company or otherwise serves it in a professional capacity shall be in addition to his salary or to his professional fees as the case may be. The Directors may also by resolution award special remuneration to any Director undertaking any special services, on the Company's behalf, other than the routine work ordinarily required of a Director to the Company, and may allow any Director who is an officer of the Company a monthly allowance towards the maintenance and upkeep of an automobile and confirmation of any such resolution or resolutions by the shareholders shall not be required. The Directors shall be entitled to be paid for travelling and other expenses properly incurred by them in connection with the affairs of the Company."

18. The first fiscal period of the Company ended on December 31, 1965. No remuneration was paid to the Directors of the Company as such during the first financial year of the Company and it is estimated that the remuneration to be paid to directors of the Company as such during the current financial year will be \$200 per meeting plus expenses. The aggregate remuneration paid by the Company and its subsidiaries during the said financial year of the Company ended December 31, 1965 to officers of the Company and its subsidiaries who individually received remuneration in excess of \$10,000 per annum was \$77,000 and the estimated aggregate of such remuneration for the current financial year is \$77,000.

19. Except as referred to in paragraph 16 hereof, no amount has been paid within the two years preceding the date hereof or is now payable by the Company as a commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in or obligations of the Company. Reference is made to clauses (ii) and (vii) of paragraph 27 hereof.

20. The Company has not been carrying on business for more than one year and the preliminary expenses amounted to \$16,829.

21. The Company purchased on July 15, 1965 for a purchase price of \$40,000, subject to the usual adjustments, a parcel of real property adjacent to the eastern boundary of the Town of Hanover having an area of approximately 82 acres on which the erection of the new one-storey factory referred to in paragraph 14 hereof has been commenced. The Company has transferred this real property to Peppler at cost.

Except as referred to in paragraph 14 hereof, no property has been purchased or acquired by the Company or is proposed to be purchased or acquired by the Company, the purchase price of which is to be defrayed in whole or in part out of the proceeds of the securities hereby offered, or has been paid within the last two years preceding the date hereof, or is to be paid in whole or in part in securities of the Company or the purchase or acquisition of which has not been completed at the date hereof, other than transactions entered into in the ordinary course of operations or on the general credit of the Company and other than as referred to in paragraph 22 hereof.

22. On May 21, 1965 the Company acquired from Frederick H. Peppler 320 common shares with a par value of \$25 each in the capital of Neustadt being all of the issued and outstanding shares in the capital of Neustadt, 80 5% non-cumulative participating preference shares and 1,980 common shares with a par value of \$100 each in the capital of Peppler being all of the issued and outstanding shares in the capital of Peppler (other than 1,000 common shares owned by Neustadt) for an aggregate consideration of \$1,000,000 satisfied by the payment of \$750,200 in cash, by the issuance of two unsecured 6% promissory notes of the Company each in the principal amount of \$25,000 and maturing on May 21, 1966 and on May 21, 1967, respectively and by the issuance of 36,000 common shares in the capital of the Company for an aggregate consideration of \$199,800.

No amount has been paid or agreed to be paid for goodwill.

Reference is hereby made to paragraph 27(iii) hereof for the terms of the agreement relating to the acquisition of such shares by the Company.

23. Other than as referred to in paragraph 22 hereof no securities of the Company have within the two years preceding the date of this prospectus been issued or agreed to be issued as fully or partly paid up otherwise than in cash.

24. No obligations are offered by this prospectus.

25. No services have been rendered or are to be rendered to the Company which are to be paid for by the Company wholly or partly out of the proceeds of the securities hereby offered except for legal, auditing and other services in connection with the issue of the said securities. No services have been rendered to the Company within the two years preceding the date of this prospectus which have been or are to be paid for by securities of the Company.

26. No amount has been paid within the two years preceding the date of this prospectus or is intended to be paid to any promoter of the Company as such.

Annett & Company Limited carried out certain studies of the furniture industry and of various companies carrying on business within the industry, which studies resulted in its decision to undertake the formation of a company to carry on business of the general nature set out in paragraph 3 hereof and it has been primarily through the efforts of Annett & Company Limited that the persons who are the directors of the Company and who compose the management of the Company have been brought together. As stated in paragraph 28 hereof 20,000 shares have been issued to Annett & Company Limited and 13,000 shares have been issued to Douglas R. Annett in each case for a cash consideration of \$3 per share. In addition 6,100 shares have been issued to C. G. King, 1,500 shares to J. W. Annett, 2,700 shares to T. A. W. Duncan, 1,500 shares to J. B. Whitely and 1,500 shares to J. A. M. Belshaw all for a cash consideration of \$3 per share, being persons who have an interest directly or indirectly to an extent of not less than 5% in the capital

of Annett & Company Limited. For the foregoing reasons and because Annett & Company Limited will maintain and continue to have an interest in the development of the Company, Annett & Company Limited may be considered a promoter of the Company.

27. The Company has not entered into any material contracts since incorporation other than contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company except

- (i) the Underwriting Agreement, as amended, referred to in paragraph 16 hereof.
- (ii) an Underwriting Agreement dated June 15, 1965 as amended by letter agreement dated July 23, 1965 made between the Company and Annett & Company Limited, 220 Bay Street, Toronto, Ontario acting on its own behalf as underwriter whereby the Company sold and the underwriter purchased 120,000 shares in the capital of the Company and 100,000 Share Purchase Warrants for an aggregate purchase price of \$674,000.
- (iii) the agreement dated May 18, 1965, between the Company and Frederick H. Pepler (hereinafter called the "Purchase Agreement") pursuant to which the Company agreed to purchase all of the issued and outstanding shares in the capital of each of Neustadt and Pepler (other than 1,000 common shares of Pepler owned by Neustadt) for an aggregate purchase price of \$1,000,000 satisfied by the payment of \$750,200 in cash, by the issuance of two unsecured 6% promissory notes each in the principal amount of \$25,000 and maturing on May 21, 1966 and on May 21, 1967 respectively and by the issuance of 36,000 common shares in the capital of the Company for an aggregate consideration of \$199,800.
- (iv) an escrow agreement between the Company and Frederick H. Pepler and the Trustees therein named dated May 21, 1965 (hereinafter called the "Escrow Agreement") pursuant to which the two promissory notes and 18,000 of the 36,000 shares referred to in clause (iii) above were transferred by Frederick H. Pepler to the Trustees to secure the performance by Frederick H. Pepler of certain obligations required to be performed pursuant to the terms and conditions of the Purchase Agreement. All of such obligations have been performed at the date hereof and accordingly the two promissory notes and the said 18,000 shares have been released from the terms and conditions of the Escrow Agreement and the Escrow Agreement has been terminated.
- (v) a contract dated July 16, 1965, between the Company and The Austin Company Limited, general contractors, providing for the construction of the new factory, the making of certain additions and alterations to the existing factory of Pepler and the acquisition of certain machinery and equipment.
- (vi) an agreement of purchase and sale between the Company and J. Frederick Richardson arising from the exercise of an option granted to the Company pursuant to which the Company purchased the parcel of real property adjacent to Hanover, Ontario referred to in paragraph 21 hereof.
- (vii) an Underwriting Agreement dated October 12, 1965, as amended by letter agreement dated November 4, 1965 made between the Company and Annett & Company Limited, 220 Bay Street, Toronto, Ontario acting on its own behalf as underwriter whereby the Company sold and the underwriter purchased \$1,250,000 aggregate principal amount of 6½% Convertible Collateral Trust Debentures of the Company for an aggregate purchase price of \$1,187,500.
- (viii) the First Warrant Indenture referred to in paragraph 11 hereof.

- (ix) agreement between the Company and Peppler Selig Sales Limited dated as of January 1, 1966 pursuant to which the Company purchased at net book value all of the assets of Peppler-Selig Sales Limited.

- (x) The Debenture Trust Indenture referred to in paragraph 9 hereof.

The Company proposes to enter into an agreement with Montreal Trust Company pursuant to which the net proceeds from the sale of the securities hereby offered, exclusive of amounts required to repay bank indebtedness of the Company in the amount of \$500,000 will be deposited with Montreal Trust Company to be released by it upon the basis and for the purposes referred to in paragraph 14 hereof.

Copies of the said agreements, and when entered into the Second Warrant Indenture and the agreement with Montreal Trust Company, may be inspected at the head office of the Company at 151 Bloor Street West, Toronto, Ontario, during ordinary business hours during the course of primary distribution to the public of the securities offered hereby and during the following thirty days.

28. The Company has not acquired and does not propose to acquire any property in which any Director had or has any interest except the shares of Neustadt and of Peppler acquired from Frederick H. Peppler as referred to in paragraph 22 hereof.

Following its incorporation, the Company issued and sold an aggregate of 115,000 common shares at a price of \$3 per share, of which 17,500 were purchased by J. William Stack Jr., a director and officer of the Company, 20,000 were purchased by Annett & Company Limited, 13,000 were purchased by Douglas R. Annett, a director and officer of the Company, 500 were purchased by Allan L. Beattie, a director and officer of the Company, 1,000 were purchased by Robert Ducas, a director of the Company, 1,000 were purchased by Alec Roy Jacobs, a director of the Company and 1,500 were purchased by Richey Bryce Love, a director the Company. Douglas R. Annett, a director and officer of the Company, is a director, officer and the largest shareholder of Annett & Company Limited, which Company has also entered into the agreement with the Company referred to in paragraph 16 hereof. Allan L. Beattie, a director of the Company, is a partner in the firm of Messrs. Osler, Hoskin & Harcourt, which firm has been and will be paid legal fees in connection with services to the Company.

29. The Company has carried on business since its incorporation on March 8, 1965. The business of Neustadt and its subsidiaries and of Peppler have been carried on for more than three years. The Company has not acquired and does not propose to acquire either by direct acquisition or indirectly by ownership of shares or otherwise any business that has been carried on for less than 3 years preceding the date of this prospectus.

30. Annett & Company Limited and its associates may be in a position to elect or cause to be elected a majority of the Directors of the Company.

31. The 115,000 common shares in the capital of the Company referred to in paragraph 28 hereof have been placed in escrow with Guaranty Trust Company of Canada pursuant to the terms of two escrow agreements each dated as of July 15, 1965. Under the terms of one of such agreements 18,500 of such common shares shall be released on August 16, 1967 and pursuant to the terms of the other agreement 96,500 of such common shares may be released after August 16, 1967, subject to the consent of the Company and the Ontario Securities Commission, in accordance with a formula based on the consolidated net earnings of the Company as determined by the auditors of the Company in accordance with generally accepted accounting principles consistently applied. Subject to the prior written consent of the Ontario Securities Commission the said escrow agreements permit the transfer of such shares respectively held in escrow thereunder provided that such shares remain subject to such escrow, the pledging of shares held in escrow as security for any loan made by a Canadian chartered bank and the earlier release of such shares from the terms of such escrow.

32. No dividends have been paid on any shares of the Company since the incorporation of the Company.

33. There are no other material facts not disclosed in the foregoing including the information supplied by the President of the Company which appears on pages 2 to 8 inclusive of this prospectus.

The foregoing constitutes full, true and plain disclosures of all material facts in respect of the offering of securities referred to above as required by Section 39 of The Securities Act (Ontario), by Part VII of the

Securities Act, 1962 (British Columbia), by Part IX of The Securities Act, 1955 (Alberta), by section 13 of the Securities Act (New Brunswick) and under The Quebec Securities Act and there is no further material information applicable other than in the financial statements or reports where required or exigible.

DATED this 4th day of March, 1966.

DIRECTORS

(signed) FREDERICK H. PEPPLER

(signed) A. L. BEATTIE

(signed) D. R. ANNETT
by his agent authorized
in writing
(signed) A. L. BEATTIE

(signed) ROBERT DUCAS
by his agent authorized
in writing
(signed) A. L. BEATTIE

(signed) J. W. STACK, JR.
by his agent authorized
in writing
(signed) A. L. BEATTIE

(signed) RICHEY BRYCE LOVE
by his agent authorized
in writing
(signed) A. L. BEATTIE

(signed) A. R. JACOBS
by his agent authorized
in writing
(signed) A. L. BEATTIE

Promoter

ANNETT & COMPANY LIMITED

by: T. A. W. DUNCAN

Underwriters

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts in respect of the offering of securities referred to above as required by Section 39 of The Securities Act (Ontario), by Part VII of the Securities Act, 1962 (British Columbia), by Part IX of The Securities Act, 1955 (Alberta), by Section 13 of the Securities Act (New Brunswick) and under The Quebec Securities Act and there is no further material information applicable other than in the financial statements or reports where required or exigible. In respect of matters which are not within our knowledge, we have relied upon the accuracy and adequacy of the foregoing.

ANNETT & COMPANY LIMITED

by: T. A. W. DUNCAN

The following are the names of every person having an interest either directly or indirectly to the extent of not less than 5% in the capital of Annett & Company Limited: D. R. Annett, C. G. King, J. W. Annett, T. A. W. Duncan, J. B. Whitely and J. A. M. Belshaw.

INFORMATION CIRCULAR

The Corporations Act

The Securities Act, 1966

Statutes of Ontario

SOLICITATION OF PROXIES

Proxies are being solicited on behalf of the management of Stancor Limited (the "Company") in connection with

- (i) a general meeting of the holders of common shares without par value (the "Common Shares") of the Company to be held on July 31, 1968, at the time and place and for the purposes set out in the notice calling such general meeting;
- (ii) a special meeting of the holders of 6% Cumulative Redeemable Convertible First Preference Shares, 1966 Series (the "Preference Shares") to be held on July 31, 1968, at the time and place and for the purposes set out in the notice calling such special meeting; and
- (iii) the Annual Meeting of shareholders of the Company to be held on July 31, 1968, at the time and place and for the purposes set out in the notice calling such annual meeting.

The persons mentioned in the forms of proxy have been designated to represent the management at the general meeting of the holders of Common Shares, at the special meeting of the holders of Preference Shares and at the Annual Meeting, and at any adjournment or adjournments of any such meetings.

The cost of solicitation will be borne by the Company. It is expected that the solicitation will be primarily by mail but proxies may also be solicited personally by representatives of the Company. No remuneration will be paid to any person for soliciting proxies, but the Company may, upon request, pay to brokerage firms, fiduciaries and other persons holding shares in their names for others, the charges entailed for sending out proxies to the persons for whom they held shares.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

Holders of Preference Shares of record at the time the special meeting of holders of Preference Shares is held will be entitled to one vote for each Preference Share held.

Holders of Common Shares of record at the time the general meeting of shareholders is held and at the time the annual meeting is held will be entitled to one vote for each Common Share held.

The Company has outstanding 200,000 Preference Shares and 429,250 Common Shares.

To the knowledge of the directors or senior officers of the Company the following own Preference Shares carrying more than 10% of the voting rights attached to all Preference Shares of the Company:

| <u>Name of Company</u> | <u>Number of Preference Shares</u> | <u>Approximate Percentage of total votes</u> |
|----------------------------------|--|--|
| ** P. B. R. S. Furniture Limited | 29,390 | 14.7 |

To the knowledge of the directors or senior officers of the Company the following own common shares carrying more than 10% of the voting rights attached to all Common Shares of the Company:

| <u>Name of Company</u> | <u>Number of Common Shares</u> | <u>Approximate Percentage of total votes</u> |
|---------------------------------|--|--|
| **P. B. R. S. Furniture Limited | 62,500 | 14.6 |

**The shares of P. B. R. S. Furniture Limited are owned equally by Mrs. Harry Sklar, Mrs. Joseph Sklar, Mrs. Louis Sklar and Mrs. Samuel Sklar, the wives of four of the directors of the Company.

Mr. Harry Sklar, Jr. Joseph Sklar, Mr. Louis Sklar and Mr. Samuel Sklar through various family corporations in which the Messrs. Sklar and their wives are shareholders and directors and through various family trusts in which the Messrs. Sklar and their wives are trustees have control over an additional 20,610 Preference Shares.

In addition, by agreement dated September 26, 1966, the Messrs. Sklar are entitled to vote an additional 82,199 Common Shares of the

Company. These Common Shares are owned beneficially by Annett Partners Limited as to 20,000 of such Common Shares, and by certain of its present and previous partners as to 27,600 of such Common Shares, by Joseph William Stack, Jr. as to 17,500 of such Common Shares and by Mrs. Wolcott R. Stack as to 17,099 of such Common Shares.

In the event dividends on the Preference Shares become in arrears to the extent of four semi-annual dividends and until such time as all arrears have been paid, the holders of the Preference Shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Company and shall be entitled to one vote in respect of each Preference Share held and shall be entitled, voting separately and as a class, to elect two-fifths of the total number of directors of the Company. Such circumstances have not arisen but the Company is in arrears to the extent of three semi-annual dividends and the fourth semi-annual dividend will be in arrears as of August 1, 1968. As referred to below under the heading "Proposed Financial Reorganization", the proposed Arrangement under Section 95 of The Corporations Act provides for the reclassification of Preference Shares into Common Shares on the basis therein set forth.

PROPOSED FINANCIAL REORGANIZATION

The Company is proposing a financial reorganization as set forth in Plan of Reorganization which accompanies this Information Circular, part of which Plan of Reorganization includes the proposed Arrangement under Section 95 of The Corporations Act as set forth in Part D thereof. At the general meeting of the holders of Common Shares of the Company and at the special meeting of the holders of Preference Shares of the Company referred to above, the holders of Common and Preference Shares will be asked to consider, and if thought fit, sanction the Plan of Reorganization and agree to such Arrangement, in either case, as proposed or as varied at the meetings.

The effect of the said Arrangement is that the issued and unissued common shares of the Company will be consolidated on the basis of two new common shares for each five existing common shares and that the outstanding Preference Shares will be reclassified into new common shares on the basis of four of such new common shares for each such Preference Share.

In addition, while the Arrangement does not so provide, the Plan of Reorganization provides that holders of existing common shares shall be entitled to receive warrants to purchase three new common shares (after giving effect to the aforesaid consolidation) for each five existing common shares held; such warrants to be issued

under and pursuant to the Warrant Indenture referred to in Part E of the Plan of Reorganization and a form of which is attached as Exhibit D to the said Plan of Reorganization.

MATERIAL INTEREST OF DIRECTORS AND
SENIOR OFFICERS OF THE COMPANY IN
THE PROPOSED REORGANIZATION

The following persons who are, or since the beginning of the last completed financial year of the Company have been directors or senior officers of the Company, and each associate of any of them, have a material interest in the proposed reorganization by way of beneficial ownership of securities of the Company as indicated below.

| <u>Name</u> | <u>Present or former position with the Company</u> | <u>Number of Common Shares held beneficially</u> | <u>Number of Preference Shares held beneficially</u> |
|---------------------------------------|--|--|--|
| D. R. Annett | Chairman of the Board and Director | 12,000 | 100 |
| Annett Part- ners Limited | | 20,000 | 6,870 |
| R. P. Jaeggin | Manufacturing Manager - Sklar Division | 25,000 | -- |
| W.J.B. King | Vice-President Production | 15,500 | 800 |
| J. E. Peppler | Vice-President Peppler Division | 24,500 | -- |
| J. E. Sands | Secretary-Treasurer | 25,000 | -- |
| **P. B. R. S. Furniture Limited | | 62,500 | 29,390 |
| J.W. Stack, Jr. | Director (resigned (1967)) | 17,500 | -- |
| Mrs. Wolcott) Stack) | Wife of J. W. Stack, Jr. | 17,099 | 1,010 |

** The shares of P. B. R. S. Furniture Limited are owned equally by Mrs. Harry Sklar, Mrs. Joseph Sklar, Mrs. Louis Sklar and Mrs. Samuel Sklar, the wives of four of the directors of the Company.

In addition to the foregoing, Douglas R. Annett and his associates of Annett Partners Limited own or control beneficially \$60,000 principal amount of Convertible Collateral Trust Debentures and 35,000 warrants to purchase Common Shares of the Company.

In addition to the foregoing, Mr. Harry Sklar, Mr. Joseph Sklar, Mr. Louis Sklar and Mr. Samuel Sklar through various family corporations in which the Messrs. Sklar and their wives are shareholders and directors and through various family trusts in which the Messrs. Sklar and their wives are trustees own \$500,000 principal amount of Convertible Subordinated General Mortgage Debentures Series A, 20,610 Preference Shares and 25,000 warrants to purchase Common Shares.

ELECTION OF DIRECTORS

At the Annual Meeting a board of ten directors is to be elected, to hold office until the next Annual Meeting of shareholders or until their successors are elected, and it is the intention of the persons named in the enclosed form of proxy to vote such proxy for the election of the persons listed hereunder.

The management does not contemplate that any nominee will be unable to serve as a director for any reason, but should this be the case, the persons named in the accompanying form of proxy reserve the right to vote for another person of their choice in his place and stead.

The names of the present directors (all of whose terms of office expire at the Annual Meeting and who are nominees for re-election as directors), their position with the Company, their principal occupation during the past five years, the year in which they each became a director of the Company and the approximate number of shares of the Company beneficially owned by them, directly or indirectly, as of the 28th day of June, 1968, are as follows:

| <u>Name</u> | <u>Position with the Company</u> | <u>Principal Occupation during past five years</u> | <u>Director Since</u> | <u>Number of Common Shares held beneficially</u> |
|--------------------|----------------------------------|--|-----------------------|--|
| D. R. Annett | Chairman of the Board & Director | President - Annett Partners Limited | 1965 | 12,000 |
| A.L. Beattie, Q.C. | Director | Partner - Osler, Hoskin & Harcourt | 1965 | 645 |
| P. F. Black | Director | Assistant Treasurer Manufacturers Life Insurance Company | 1967 | 2 |

| | | | | |
|-------------|------------------------------|--|------|-------|
| E. T. Cohen | Director | Assistant Vice-President Unas Investment Limited | 1967 | -- |
| R. Ducas | Director | Partner Burnham & Company New York | 1965 | 3,000 |
| L. Sklar | Vice-President & Director | Secretary-Treasurer Sklar Furniture Company | 1966 | 2 |
| S. Sklar | President & Director | President Sklar Furniture Company | 1966 | 2 |
| J. Sklar | Vice-President & Director | Vice-President Sklar Furniture Company | 1966 | 2 |
| H. Sklar | Director | Vice-President Sklar Furniture Company | 1966 | 2 |

In addition to the foregoing persons, it is the intention of management to nominate and to vote proxies for the election of Mr. T. R. Bradbury who is the beneficial owner of 100 Common Shares of the Company. From 1959-64 Mr. Bradbury was employed as a journalist with The Manchester Guardian and from 1964-67 was employed by E. R. Lewis & Company, stock brokers in London, England. In April 1967 Mr. Bradbury joined Annett Partners Limited, Toronto, Ontario.

REMUNERATION OF MANAGEMENT

The Company and its subsidiaries paid a total of \$1,000 to the directors as a group for acting as such during the last completed financial year. The aggregate direct remuneration paid or payable by the Company and its subsidiaries to the senior officers of the Company as a group during the Company's last completed financial year was \$243,359.

The estimated aggregate cost to the Company and its subsidiaries in the last completed financial year of all pension benefits, other than the Canada Pension Plan, proposed to be paid under any normal pension plan in the event of retirement at normal retirement age,

directly or indirectly by the Company and its subsidiaries to the senior officers of the Company as a group was \$1,690. None of the directors participates in such benefits.

No options to purchase capital securities of the Company have been exercised by any of the senior officers of the Company since the commencement of the Company's last completed financial year. None of the directors holds any such option.

At a meeting of the directors of the Company on June 28, 1968, 95,750 Common Shares were issued to key employees of the Company for a consideration of one cent per share. Three-quarters of the shares so issued are held in trust and are subject to release over a period of three years. No director of the Company has participated directly or indirectly in the shares so issued.

APPOINTMENT OF AUDITORS

It is intended to vote the proxies hereby solicited to appoint Messrs. Clarkson, Gordon & Co. and Messrs. Soberman, Isenbaum & Nisker, Chartered Accountants, as joint auditors of the Company to hold office until the next annual meeting of shareholders. Messrs. Clarkson, Gordon & Co. were first appointed auditors of the Company on May 20, 1965, and Messrs. Soberman, Isenbaum & Nisker were first appointed auditors of the Company on April 27, 1967.

INFORMATION AS TO SHARES BENEFICIALLY OWNED

The information as to shares beneficially owned as set forth in the foregoing portions of this Information Circular is not within the knowledge of management and has been furnished by the persons named as the beneficial owners of such shares.

REVOCABILITY OF PROXIES

A proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is exercised.

VOTING OF PROXIES

The proxies hereby solicited by management will be voted and where the shareholder whose proxy is solicited specifies a choice for or against approval of the matters referred to in the notices calling the meetings of shareholders referred to above, such proxies will be voted in accordance with such specification; IF A CHOICE IS NOT SPECIFIED IN RESPECT OF SUCH MATTERS THE PROXIES WILL BE VOTED IN FAVOUR OF APPROVAL.

The management does not know of any other matters to be brought before the meeting other than those set forth in the notices of the meetings. If any other matters which are not now known to the management should properly come before the meetings (including amendments or variations to the Arrangement), the accompanying proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy.

IN CASE SHAREHOLDERS MAY DESIRE TO APPOINT A PROXY OR PROXIES OTHER THAN THOSE NAMED IN THE ENCLOSED FORM, A BLANK SPACE APPEARS IN WHICH THE NAME OR NAMES OF THE DESIRED PROXY OR PROXIES MAY BE INSERTED. A PROXY NEED NOT BE A SHAREHOLDER OF THE COMPANY.

By Order of the Board of Directors

Toronto, Ontario
June 28, 1968.

J. E. SANDS
Secretary-Treasurer

PRESIDENT'S LETTER

1966 was a year of significant growth for Stancor Limited. In this, its second year of existence, it increased the annual sales volume of the nucleus Peppler group of companies from the 1964, pre-Stancor total of \$2,178,000 to a 1966 calendar year volume of \$13,465,000. This growth was achieved by the completion and activation of the new Peppler factory in Hanover, and by the acquisition of the Sklar Furniture Company. The first goal of Stancor, which was stated in last year's Annual Report, of achieving a sales volume of approximately \$15 million, was accomplished in 1966. To quote from last year's report, "We believe this level is necessary in order to attract qualified staff, as well as (to provide) the marketing and merchandising support which are absolutely essential to launch an effective corporate entity into the North American furniture manufacturing industry".

As reported last year, our new manufacturing complex was activated in Hanover, Ontario on March 9, 1966. The new factory was integrated with an enlarged and completely remodelled existing factory to provide an annual production capability of \$5,000,000. To bring the Peppler Division which in 1965 had produced \$1,628,000 to this new level provided a major challenge to your management. The situation was complicated by the serious illness of F. H. Peppler, Vice-President and General Manager of the Division. This necessitated his resignation in April, when he was replaced by his brother, J. E. Peppler.

Because the level of production and sales was being increased by such a great amount, the entire Peppler Division had to be reorganized and staffed to accommodate the increase. Your company was indeed fortunate in obtaining a seasoned senior executive with furniture experience, W. J. B. King, to assume corporate responsibilities as Vice-President, Production. On April 25th he took residence in Hanover where he could actively participate in and provide direction to the major buildup being accomplished. As might be expected, a number of delays were encountered during this period of buildup, and as a result, the achievement of a monthly production level of \$400,000 was not realized until February, 1967. Because the start-up took longer than programmed, its costs were higher than anticipated. A substantial portion of these costs has been absorbed against 1966 operations; the balance (largely excess labour costs) has been deferred to be written off over the next three years.



Joseph William Stack, Jr.—President

As mentioned above, the production level achieved in the month of February and maintained in March indicates satisfactory solutions to problems encountered in the area of production. There is good reason to believe that sales commensurate with this production level will also be achieved in 1967.

The salient unknown aspect of the sales picture at present is the length of time we will encounter a soft market. Since mid-November sales volume has been increasingly difficult to maintain in the face of high dealer inventories and indifferent consumer demand.

In February and March, 1967, with the introduction of "Canadian Classics", a total sales and marketing programme for an extensive new furniture collection was introduced from coast to coast. Hailed by the trade press and by outstanding retailers as a long overdue and extremely effective new approach to selling furniture, the initial reaction seems to justify optimism about the value of this method.

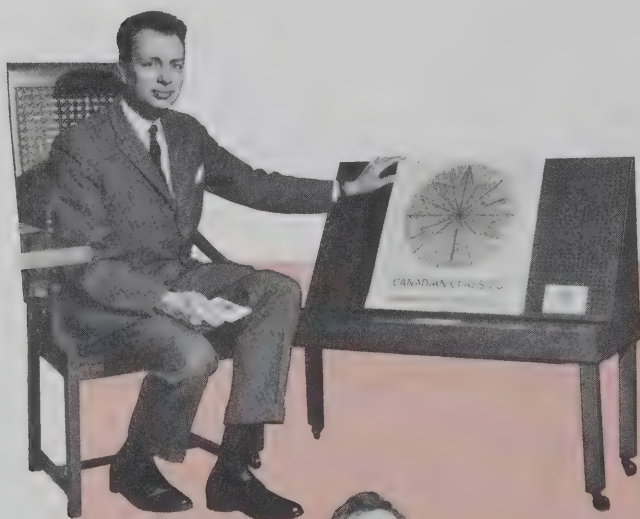
The second major accomplishment during the year was the acquisition of the Sklar Furniture Company of Whitby, Ontario. This company which was owned by the four Sklar brothers, is Canada's largest manufacturer of upholstered furniture and achieved sales of \$8,571,000 in 1965. Operations are conducted from a new 240,000-square-foot factory which was completed in 1965. The four brothers, who are extremely diversified in talent and interests, comprise an outstanding executive group. In addition, they have surrounded themselves with an aggressive and capable group of younger managers being trained for greater responsibility. The furniture Sklar produces is of excellent quality in the

lower medium range where it is competitively priced. In every respect, Sklar Furniture Company met the three basic considerations described in last year's Annual Report as essential in our acquisition programme; a high calibre of management, an excellent product complementing existing lines and new physical facilities. In addition, Sklar enjoyed one accomplishment few other furniture companies in North America have achieved; it has successfully operated a large business using the very latest manufacturing methods and controls, supported by sophisticated costing and financial information.

Preliminary negotiations had been conducted for a considerable time before a conditional letter of intent to purchase was executed between officials of your company and Sklar on April 4, 1966. From this date until the actual purchase was accomplished on September 26, 1966, many problems associated with the acquisition were identified and solved. Upon finalizing the purchase, details of which are given in the Financial Review which follows, a reorganization of the Sklar Division was started. Executive functions were defined

and, when appropriate, corporate responsibilities were added to Divisional personnel. In this way we were able to strengthen our corporate management group without adding overhead.

Although the Sklar Division achieved record sales volume of \$10,529,000 for the year, its profit contribution fell below anticipated levels. The major cause was the softening of the retail furniture market which developed in mid-November, 1966 and has continued to the present time. This situation stems from several factors which include; high dealer inventories, retail customer apathy and the tight money and credit situation which continues to squeeze the retailer. Your company is meeting this situation in two ways. We have made drastic cuts in overhead in order to maintain profit margins at the highest possible levels. In addition we have launched aggressive marketing programmes, in all three Divisions, which are designed to break down customer apathy and to restore dealer enthusiasm and confidence. Although it is too early to evaluate the results of this combined approach, we believe the posi-





tive response your company is making to the slowing economy which has characterized the first quarter of 1967 will maximize available profits.

Although the outlook for 1967 is difficult to predict in the light of the experience gained in the first quarter, your management is confident that the furniture industry offers an unusually attractive growth potential. If, as many economists predict, the second half of 1967 sees an upturn in the general economy, Stancor is positioned to participate in the increase. The long range potential of the furniture industry remains bright. In December, 1966 the research bureau of MacLean-Hunter predicted a Canadian furniture sales volume for 1970 of \$528 million. They also forecast a 1975 volume of \$637 million. This compares with an estimated volume in 1966 of \$434 million. The potential growth represented by these forecasts requires new marketing approaches on the part of furniture manufacturers if they are to share in the available opportunity. With this in mind your company has expanded its marketing programme by leasing permanent space in Place Bonaventure, the

new merchandise mart which is opening in Montreal this year. This base in the Province of Quebec added to our existing showrooms in Ontario provides the expanded coverage which will help us obtain our share of the growth potential available in the future.

During 1967 your management intends to consolidate the remarkable growth which was achieved during 1966. Until satisfactory earnings are accomplished we do not intend to engage in further expansion or acquisitions. We, of course, expect to gain as much sales increase as possible by means of an aggressive marketing programme. With our new production facilities achieving projected levels we are confident that profitable expansion using the existing physical facilities can be achieved. Our emphasis during 1967 will be to produce significant increases in profit levels for the year.

J.W. Sklar Jr. President

Toronto Ontario April 10, 1967



- 1 **Robert Legat Trevorrow Baillie**
Vice-President and Treasurer
- 2 **Joseph Sklar**
Vice-President and Director of Design
- 3 **Louis Sklar**
Vice-President and General Manager Sklar Division
- 4 **William James Boyd King**
Vice-President, Production
- 5 **John Edward Peppler**
*Vice-President and General Manager
Peppler Division*
- 6 **Thomas Donaldson Bruce**
General Manager, Peppler-Selig Division
- 7 **Samuel Sklar**
Vice-President, Marketing

| | | |
|---|---|---|
| 3 | 5 | 6 |
| 4 | | 7 |

FINANCIAL REVIEW

Basis of Consolidation

The 1966 fiscal year of Stancor incorporates activities of its divisions on three different bases.

- 1) The Peppler-Selig Division reflects a consistent operation during the full twelve months of the year.
- 2) The Peppler Division reflects results of operations during the full twelve months. During this period, construction of the new plant in Hanover was completed—the plant was officially opened on March 9, 1966. At this time the necessary start-up and reorganization activities to integrate the new plant with the enlarged original factory were undertaken. The full efforts of Peppler management for the balance of the year were devoted to developing an efficient production source.
- 3) Although the Sklar division was acquired on September 26, 1966, the effective date was May 7, 1966 and, accordingly, the operating results of this division are reflected in 1966 financial statements for the period from May 7, 1966 to December 31, 1966 only.

The 1965 fiscal period of Stancor reflected operating results of the Peppler group of companies (now the Peppler and Peppler-Selig Divisions) for the nine months ended December 31, 1965 only.

Comparative results for 1966 and 1965 shown by the audited statements of Stancor Limited, show the progress of your company's financing and acquisition program during the two years and accordingly should be reviewed from this viewpoint only.

Operating Comparisons

On a comparative basis, sales for a full calendar year are more valuable than the financial statements in assessing the basic progress of your company. Accordingly, sales by division for the full years 1964, 1965 and 1966 are shown below on a basis consistent with the structure existing at December 31, 1966.

| Division | 1966 | 1965 | 1964 |
|---------------|-------------------|------------------|------------------|
| Peppler | \$ 2,232,000 | \$ 1,628,000 | \$ 1,485,000 |
| Peppler-Selig | 704,000 | 712,000 | 693,000 |
| Sklar | <u>10,529,000</u> | <u>8,571,000</u> | <u>6,183,000</u> |
| Total | \$13,465,000 | \$10,911,000 | \$ 8,361,000 |

Deferred Start-up Costs—Hanover Case Goods

During the "tune-up" period of any production facility substantial preliminary and development costs are incurred in bringing volumes and efficiencies to designed levels. The Peppler Division case goods plant in Hanover is no exception to this. Your management is pleased to report that during 1966, construction of the physical plant was completed—marked by the formal plant opening on March 9, 1966 reported in last year's annual review—and that the facility has now reached its initial production volume plateau of \$5,000,000 per

annum.

During the tune-up period which continued throughout 1966, significant changes were made in the Peppler Division management organization in control and reporting techniques, in supervisory methods and training, in physical plant layout to permit improved processes and in personnel training. Many of these processes will, of course, be a continuing responsibility of our strengthened management in Hanover. However, we are of the opinion that the initial major problem of developing new approaches and techniques in a company which was, prior to acquisition, a privately held, small company with a minimum of modern control methods and techniques has been surmounted during 1966. Many costs are incurred as part of this "learning curve" during the development of an operation. Your management estimates that those specific costs which can be directly attributed to the development and start-up of the new facility are in excess of \$400,000. A substantial amount was charged against 1966 operations. In the accompanying financial statements we have deferred as a charge against future operations, an amount of \$275,000, relating largely to labour costs. We intend to write this amount off against operations in the next three years. We feel that this is a realistic but conservative approach to reflecting true results of operations of our Peppler Division during 1966.

Depreciation

Depreciation has been provided at rates designed to write-off the cost of facilities over their effective life on a conservative basis. During 1966, depreciation has been provided on the new facilities in Hanover only for the period these assets were in service.

Generally, depreciation of assets is provided on a "straight line" basis using a useful life of 10 years for machinery and equipment and 40 years for buildings.

Financing

In March, 1966 the company completed financing of the new facilities in Hanover with the issue of First Preference Shares with a par value of \$1,500,000.

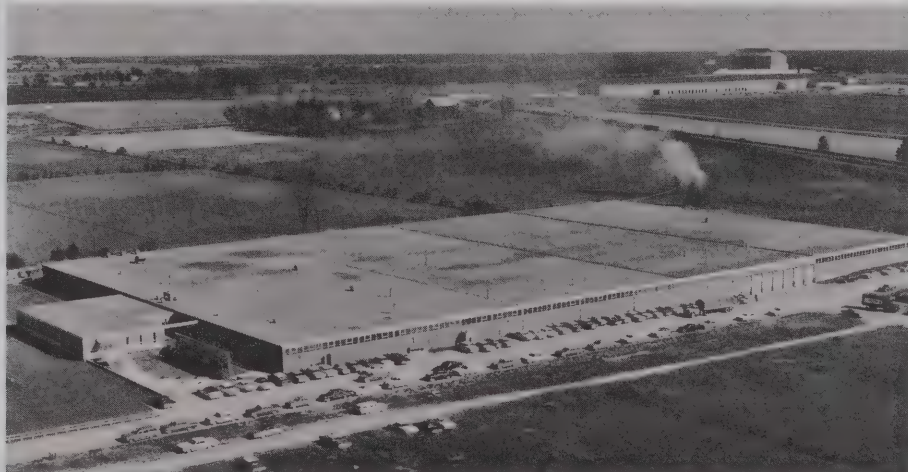
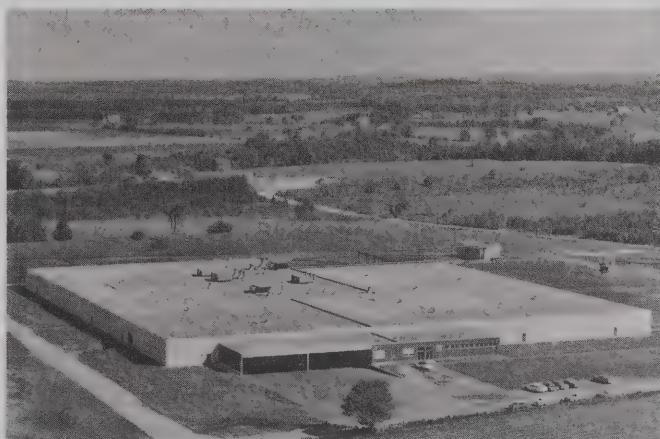
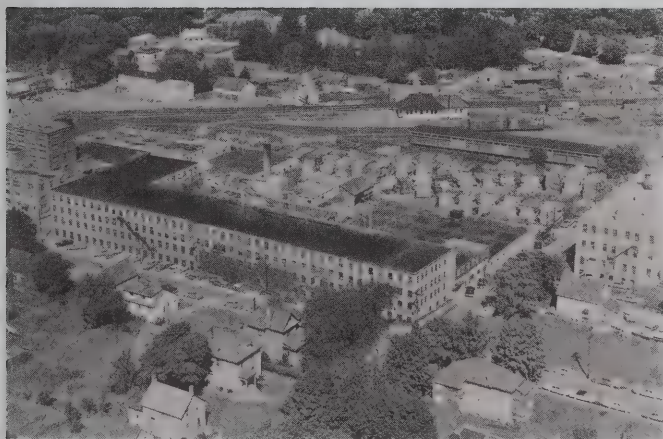
In September, 1966 the financing of the purchase, for \$4,000,000, of the assets of the Sklar Furniture Company was provided by the issue and sale of (1) first mortgage sinking fund bonds with a par value of Canadian \$1,600,000 and U.S. \$500,000 (total value in Canadian dollars \$2,137,969) and (2) convertible subordinate general mortgage debentures of Canadian \$500,000 and U.S. \$400,000 (total value in Canadian dollars \$930,375).

The balance of the purchase price was provided by issue of preference and common shares.



ANNUAL REPORT HIGHLIGHTS

| | 1966 | 1965 |
|----------------------------------|--------------|--------------|
| Sales—per financial statements | \$10,235,000 | \$ 1,753,000 |
| Sales—calendar year (see report) | 13,465,000 | 10,911,000 |
| Net income | \$108,559 | \$18,310 |
| Common shares outstanding | 333,500 | 271,000 |
| Preference shares outstanding | 200,000 | — |
| Long term debt | 4,343,344 | 1,300,000 |
| Shareholders equity | 3,816,375 | 1,237,110 |
| Number of employees | 1,143 | 215 |
| Expenditure on plant | 1,239,826 | 1,394,019 |
| Funds derived from operations | 320,462 | 79,625 |



1. Original Peppler factory in Hanover which was completely remodelled and enlarged by 30,000 square feet during 1966
2. New Peppler factory in Hanover completed on March 9, 1966. Canada's largest new factory devoted exclusively to wooden household furniture production
3. Sklar plant in Whitby, Canada's largest new factory producing upholstered furniture

CONSOLIDATED BALANCE SHEET

December 31, 1966

(with comparative figures
as at December 31, 1965)

ASSETS

Current

| | 1966 | 1965 |
|---|------------------|------------------|
| Cash | \$ 37,102 | \$ 63,217 |
| Accounts receivable | 2,858,569 | 362,454 |
| Inventories (note 2) | 2,199,520 | 742,770 |
| Prepaid expenses and other current assets | 91,259 | 29,496 |
| Total current assets | <u>5,186,450</u> | <u>1,197,937</u> |

Property, plant and equipment (note 3)

| | |
|------------------|------------------|
| <u>3,632,337</u> | <u>2,427,270</u> |
|------------------|------------------|

Deferred

| | | |
|--|----------------|----------------|
| Deferred start-up and reorganization costs (note 4) | 275,000 | |
| Long-term debt discount and expense, less amortization | 209,492 | 82,855 |
| Share issue expenses | 141,595 | 24,287 |
| Other deferred charges | 33,082 | 15,676 |
| | <u>659,169</u> | <u>122,818</u> |

Goodwill—at cost (note 1)

| | |
|---------------------|---------------------|
| 2,805,727 | |
| <u>\$12,283,683</u> | <u>\$ 3,748,025</u> |

LIABILITIES

Current

| | 1966 | 1965 |
|--------------------------------------|------------------|----------------|
| Bank indebtedness (note 5) | \$ 2,520,215 | \$ 616,996 |
| Accounts payable and accrued charges | 1,389,312 | 154,468 |
| Sales and other taxes payable | 214,437 | 21,597 |
| Current portion of long-term debt | <u>132,000</u> | <u>25,000</u> |
| Total current liabilities | <u>4,255,964</u> | <u>818,061</u> |

Amounts due for construction of new factory

| |
|----------------|
| <u>417,854</u> |
|----------------|

Long-term debt (note 6)

| | |
|------------------|------------------|
| <u>4,211,344</u> | <u>1,275,000</u> |
|------------------|------------------|

Shareholders' equity

| | | |
|-------------------------------|---------------------|---------------------|
| Capital stock (notes 7 and 8) | 3,713,800 | 1,213,800 |
| Contributed surplus | 8,500 | 5,000 |
| Earned surplus (note 6) | 94,075 | 18,310 |
| | <u>3,816,375</u> | <u>1,237,110</u> |
| | <u>\$12,283,683</u> | <u>\$ 3,748,025</u> |

On behalf of the Board: J. W. STACK, Jr., Director

L. SKLAR, Director



FINANCIAL STATEMENTS, DECEMBER 31, 1966

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

for the year ended
December 31, 1966

(with comparative figures
for the nine months ended
December 31, 1965—note 1)

| | 1966 | 1965 |
|--|---------------------|---------------------|
| Net sales | <u>\$10,234,612</u> | <u>\$ 1,752,789</u> |
| Deductions | | |
| Cost of goods sold (note 4) | 8,135,583 | 1,372,723 |
| Marketing expenses | 899,043 | 122,562 |
| General and administrative expenses | 648,157 | 143,322 |
| Depreciation | 199,367 | 60,436 |
| Interest on bank indebtedness | 113,338 | 24,401 |
| Interest on long-term debt (including amortization of discount and expense) | <u>130,565</u> | <u>11,035</u> |
| | <u>10,126,053</u> | <u>1,734,479</u> |
| Net profit for the period (note 9) | <u>\$ 108,559</u> | <u>\$ 18,310</u> |

CONSOLIDATED STATEMENTS OF SURPLUS

for the year ended
December 31, 1966

(with comparative figures
for the nine months ended
December 31, 1965—note 1)

| | 1966 | 1965 |
|--|-----------------|-----------------|
| Contributed surplus | | |
| Balance, beginning of period | \$ 5,000 | |
| Proceeds from issues of common share warrants (note 7) | <u>3,500</u> | <u>\$ 5,000</u> |
| Balance, end of period | <u>\$ 8,500</u> | <u>\$ 5,000</u> |
| Earned surplus | | |
| Balance, beginning of period | \$18,310 | |
| Add net profit for the period | <u>108,559</u> | <u>\$18,310</u> |
| | <u>126,869</u> | <u>18,310</u> |
| Deduct dividend on preference shares (note 6) | <u>32,794</u> | |
| Balance, end of period | <u>\$94,075</u> | <u>\$18,310</u> |

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended
December 31, 1966
(with comparative figures
for the nine months
ended December 31, 1965—note 1)

| | 1966 | 1965 |
|---|-------------------|-------------------|
| Source of funds | | |
| Operations— | | |
| Net profit for the period | \$ 108,559 | \$ 18,310 |
| Add non-cash charges | | |
| Depreciation | 199,367 | 60,436 |
| Amortization of debt discount and expense | 12,536 | 879 |
| Funds from operations | 320,462 | 79,625 |
| Proceeds from issues of bonds, debentures, notes and shares, net of issue expenses | 5,318,926 | 2,410,779 |
| Working capital of businesses acquired, at dates of acquisition | 611,425 | 325,726 |
| Total | <u>6,250,813</u> | <u>2,816,130</u> |
| Application of funds | | |
| Acquisition of businesses (note 1)— | | |
| Sklar Furniture Company | 4,000,000 | |
| Peppler Bros. Company Limited and associated companies | | 1,000,000 |
| Additions to property, plant and equipment | 1,239,826 | 1,394,019 |
| Deferred start-up and reorganization costs | 275,000 | |
| Provision for long-term debt due within one year | 132,000 | 25,000 |
| Dividend on preference shares | 32,794 | |
| Other deferred charges | 20,583 | 17,235 |
| Total | <u>5,700,203</u> | <u>2,436,254</u> |
| Increase in working capital | 550,610 | 379,876 |
| Working capital, beginning of period | 379,876 | |
| Working capital, end of period (note 6) | <u>\$ 930,486</u> | <u>\$ 379,876</u> |



**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS**
December 31, 1966

1. PRINCIPLES OF CONSOLIDATION

The accounts of all subsidiary companies have been included in the consolidation. Effective May 7, 1966, the company acquired the net assets and business of Sklar Furniture Company for \$4,000,000. The consolidated statement of profit and loss for 1966 accordingly includes the earnings of that business for the period May 7 to December 31, 1966. The excess of the purchase price of Sklar Furniture Company over the value of the net tangible assets acquired, \$2,805,727, is shown as "goodwill" in the consolidated balance sheet. The company commenced operations on March 31, 1965, the effective date of acquisition of Peppler Bros. Company Limited (subsequently re-named Stancor Central Limited) and associated companies. The consolidated statement of profit and loss for 1965 accordingly covers the nine-month period March 31 to December 31, 1965.

2. INVENTORIES

Inventories are valued at the lower of cost or net realizable value and consist of the following:

| | 1966 | 1965 |
|-----------------|--------------------|------------------|
| Raw materials | \$1,074,208 | \$344,317 |
| Work in process | 518,807 | 149,686 |
| Finished goods | 606,505 | 248,767 |
| | <u>\$2,199,520</u> | <u>\$742,770</u> |

3. PROPERTY, PLANT AND EQUIPMENT

| | Gross investment at cost | Accumulated depreciation | Net investment 1966 | Net investment 1965 |
|---|--------------------------------|-----------------------------|---------------------------|---------------------------|
| Land | \$ 69,920 | | \$ 69,920 | \$ 18,123 |
| Buildings | 2,012,688 | \$ 219,361 | 1,793,327 | 275,216 |
| Leasehold improvements | 123,090 | 21,086 | 102,004 | 1,085 |
| Machinery and equipment | 2,723,449 | 1,056,363 | 1,667,086 | 441,080 |
| | 4,929,147 | 1,296,810 | 3,632,337 | 735,504 |
| Cost of new factory under construction (including unexpended construction funds) | | | | 1,691,766 |
| | <u>\$4,929,147</u> | <u>\$1,296,810</u> | <u>\$3,632,337</u> | <u>\$2,427,270</u> |

The fixed assets acquired from Sklar Furniture Company as of May 7, 1966 have been recorded in the accounts of Stancor at their original cost to Sklar (\$852,721), and the depreciation accumulated by Sklar to May 7, 1966 (\$269,873) is included in "accumulated depreciation".

4. DEFERRED START-UP AND REORGANIZATION COSTS

During the year the company completed construction of a new factory in Hanover for the assembly and finishing of furniture, and reorganized, modernized and expanded that part of its existing factory at Hanover which produces the basic furniture parts and components. Normal productive operations were considerably disrupted while new machinery was installed, existing machinery rearranged and basic manufacturing operations changed and, in many cases, automated. During the start-up phase of the new factory, and the reorganization of the existing factory facilities, both of which extended over several months, the company's production facilities were operating substantially below normal levels. The excess costs attributable to start-up and reorganization cannot be determined exactly; however, in management's opinion such costs likely totalled something in excess of \$400,000. Of the total excess costs, amounts aggregating \$275,000 (representing largely excess labour costs) have been identified and set up in the accounts as "deferred start-up and reorganization costs". These deferred costs will be charged to operations over the next three years. The remainder of the excess costs have been absorbed as charges against 1966 operations.

5. SECURITY FOR BANK INDEBTEDNESS

Bank indebtedness is secured by a pledge of the accounts receivable and inventories. In addition, the two operating subsidiary companies have each issued to the bank as collateral security, floating charge debentures in the amount of \$1,000,000 on all their assets, such debentures being subordinate to the first floating charge created by the first mortgage bonds, as referred to in note 6.

6. LONG-TERM DEBT

| | 1966 | 1965 |
|---|--------------------|--------------------|
| First mortgage sinking fund bonds due September 15, 1986— | | |
| 7½% series A, payable in Canadian dollars | \$1,600,000 | |
| 7% series B, payable in United States dollars (U.S. \$500,000) | 537,969 | |
| Convertible subordinate general mortgage debentures due September 15, 1978— | | |
| 7½% series A, payable in Canadian dollars | 500,000 | |
| 7% series B, payable in United States dollars (U.S. \$400,000) | 430,375 | |
| 6½% convertible collateral trust debentures due November 15, 1977 | 1,250,000 | \$1,250,000 |
| 6% notes payable due in 1966 and 1967 | 25,000 | 50,000 |
| | <u>4,343,344</u> | <u>1,300,000</u> |
| Less instalments due within one year included in current liabilities | 132,000 | 25,000 |
| | <u>\$4,211,344</u> | <u>\$1,275,000</u> |

(a) Security—

First mortgage bonds due September 15, 1986—a first mortgage on substantially all the fixed assets together with a first floating charge on all other assets, subject to the pledge of accounts receivable and inventories as security for bank indebtedness as referred to in note 5.

Convertible subordinate general mortgage debentures due September 15, 1978—a second mortgage on the fixed assets together with a floating charge on all other assets, subordinate to the floating charge security for bank indebtedness, as referred to in note 5. Convertible collateral trust debentures due November 15, 1977—a pledge of the shares of the subsidiary companies.

(b) Sinking funds—

Sinking funds have been established for the retirement of bonds and debentures into which the company will be required to pay the following amounts over the next five years:

| | |
|--------------|------------------|
| 1967 | \$107,000 |
| 1968 to 1971 | 177,000 per year |

(c) Redemption—

The bonds and debentures are redeemable in whole or in part at the company's option (subject to the payment of specified premiums on a declining scale) as follows:

After September 15, 1971—in the case of the first mortgage bonds and the general mortgage debentures.

After November 15, 1968—in the case of the collateral trust debentures.

(d) Convertibility into common shares—

The general mortgage debentures are convertible at the holder's option into common shares without par value at a price of \$8.00 per share in the period to September 14, 1972 and \$10.00 per share in the period September 15, 1972 to September 14, 1978. The collateral trust debentures are convertible at the holder's option into common shares without par value at a price of \$8.00 per share in the period to November 14, 1972 and \$10.00 per share in the period November 15, 1972 to November 14, 1978.

(e) Restrictions re dividends, redemption of preference shares, working capital, etc.—

The trust deed relating to the first mortgage bonds contains certain restrictions on the payment of dividends on both preference and common shares and on the redemption of preference shares, and provides for the maintenance of working capital in certain minimum amounts. As a result of these restrictive covenants:

- (i) Dividends paid after January 1, 1966 on preference and common shares may not in total exceed 75% of consolidated net income earned after January 1, 1966. In addition, preference share dividends may not reduce consolidated current assets below 150% of consolidated current liabilities, and total shareholders' equity below \$3,500,000. For common share dividends and redemptions of preference shares, the respective minimums are 200% and \$4,000,000.

The dividend of \$32,794 on the preference shares (6% on the 150,000 shares outstanding for the period from the date of issue of the shares, March 21, 1966 to July 31, 1966) was paid prior to the issue of the first mortgage bonds and thus was not subject to the above restrictions.

- (ii) Consolidated working capital must be maintained at the following minimum amounts during the periods indicated:

| | |
|--------------------------------------|------------|
| To June 30, 1967 | \$ 500,000 |
| July 1, 1967 to December 31, 1967 | 750,000 |
| January 1, 1968 to December 31, 1968 | 1,000,000 |
| After December 31, 1968 | 1,500,000 |



7. CAPITAL STOCK

Authorized:

| | |
|-----------|--|
| 225,000 | first preference shares with a par value of \$10 each, issuable in series, of which 200,000 shares are designated as 6% cumulative redeemable convertible first preference shares 1966 series, redeemable at \$10.60 after March 1, 1969 |
| 1,000,000 | common shares without par value |

Issued:

| | | |
|---------|-------------------------|--------------------|
| 200,000 | first preference shares | \$2,000,000 |
| 333,500 | common shares | <u>1,713,800</u> |
| | | <u>\$3,713,800</u> |

(a) Shares issued during 1966—

First preference shares:

| | | |
|---------|---|--------------------|
| 150,000 | shares issued at par for cash | \$1,500,000 |
| 50,000 | shares issued at par as part of the consideration for the purchase of Sklar Furniture Company | <u>500,000</u> |
| 200,000 | | <u>\$2,000,000</u> |

Common shares:

| | | |
|--------|--|-------------------|
| 62,500 | shares issued as part of the consideration for the purchase of Sklar Furniture Company | <u>\$ 500,000</u> |
|--------|--|-------------------|

(b) Common share warrants issued during 1966—

A total of 198,200 warrants to purchase common shares were issued during the year. Of these, 65,000 were sold for \$3,500 (credited to contributed surplus); the remainder were issued for no assigned consideration in connection with the issue and sale of first mortgage bonds and preference shares.

(c) Convertibility of preference shares—

The preference shares are convertible at the holder's option into common shares on the basis of $1\frac{1}{4}$ common shares for each preference share during the period to March 1, 1973, and 1 common share for each preference share during the period March 2, 1973 to March 1, 1978.

(d) Restrictions re dividends on common shares—

The terms of issue of the preference shares provide certain restrictions on the payment of dividends on common shares. These restrictions, however, are less restrictive than those imposed by the trust deed for the first mortgage bonds to which reference was made in note 6 (e).

8. RESERVATION OF COMMON SHARES

590,750 common shares are reserved as follows:

| | <u>Number of shares</u> |
|---|-------------------------|
| (a) For possible issue upon the exercise of the 298,200 share purchase warrants presently outstanding. Such warrants entitle the holders thereof to purchase common shares at a price of \$8 per share until June 15, 1975, subject to adjustment under certain conditions. | 298,200 shares |
| (b) For possible issue upon the exercise of stock options granted to officers or employees of the company and its subsidiaries. These options entitle the holders thereof to purchase shares at a price of \$8 per share exercisable for periods up to five years. As of December 31, 1966, none of the options had been exercised. | 20,000 |
| (c) For possible issue on conversion of the general mortgage and collateral trust debentures referred to in note 6 above. | <u>272,550</u> |
| | <u>590,750 shares</u> |

Note: To the extent that preference shares are converted into common shares, the Corporations Act of Ontario provides that the number of common shares authorized and issued will be increased accordingly.

9. INCOME TAXES

The income which would ordinarily be subject to tax for the year is higher than the income shown by \$129,000 representing certain write-offs and expenses which are not deductible for income tax purposes. However, the taxes otherwise payable of \$113,000 have been eliminated (i) by claiming for tax purposes certain charges which have been deferred for accounting purposes and (ii) by applying prior years' losses of the parent and one of the subsidiary companies.

As at December 31, 1966 the total of deferred costs which have been claimed for tax purposes, but remain to be written off in future years for accounting purposes, amount to approximately \$242,000. In addition there are included in undepreciated plant and equipment costs, and unamortized financing expenses, amounts aggregating \$386,000 and \$212,000 respectively which are to be written off in future years by way of depreciation or amortization but which will not be deductible for tax purposes.

10. PENSION PLANS

Certain salaried employees participate in a contributory pension plan which was introduced on January 1, 1966. Hourly-paid employees in the companies' plants at Hanover and Elora are covered by a non-contributory joint industry-union pension plan. In 1966, the total pension cost charged to income (including amounts paid to government pension plans) was \$122,116.

The unfunded past service liability under the salaried plan is \$25,000, which is being funded over 15 years.

11. LONG-TERM LEASES

Minimum annual rentals on premises under lease are approximately as follows:

| | |
|--------------|--------------------|
| 1967 to 1969 | \$150,000 per year |
| 1970 to 1976 | 200,000 |
| 1977 | 140,000 |
| 1978 to 1986 | 115,000 |

12. REMUNERATION OF DIRECTORS

Costs and expenses for the year include remuneration of directors as such (excluding remuneration for services as officers and employees), of \$1,400.

AUDITORS' REPORT

To the Shareholders of Stancor Limited:

We have examined the consolidated balance sheet of Stancor Limited and subsidiary companies as at December 31, 1966 and the consolidated statements of profit and loss, surplus, and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the companies as at December 31, 1966 and the results of their operations and the source and application of their funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Canada,
March 8, 1967.

Clarkson, Gordon & Co.,
Soberman, Isenbaum & Company,
Chartered Accountants

GENERAL INFORMATION

HEAD OFFICE:

151 Bloor Street West, Toronto 5, Ontario—Telephone 416/927-1586

DIVISIONS:

Peppler Division

Hanover, Ontario—Telephone 519/364-1640

Peppler-Selig Division

Elora, Ontario—Telephone 519/846-5321

Sklar Division

617 Victoria St. East, Whitby, Ontario—Telephone 416/924-7463

PRODUCTS:

Peppler Division

Case Goods (dining and bedroom suites), Tables, Chairs, Furniture "Collections"

Peppler-Selig Division

Upholstered furniture

Sklar Division

Upholstered furniture, Lounge Chairs, Dual purpose furniture.

PLANT AREA:

Peppler Division—

| | Square feet | |
|---------------------|-------------|---------------|
| Original plant..... | 175,000 | (north plant) |
| New Plant..... | 200,000 | (east plant) |

| | | |
|-----------------------------|--------|--|
| Peppler-Selig Division..... | 25,700 | |
|-----------------------------|--------|--|

| | | |
|---------------------|---------|--|
| Sklar Division..... | 240,000 | |
|---------------------|---------|--|

| | | |
|--------------|----------------|--|
| TOTAL | 640,700 | |
|--------------|----------------|--|

SALES:

| YEAR | Peppler | Peppler-Selig | Sklar | Total |
|------|-------------|---------------|--------------|--------------|
| 1966 | \$2,232,000 | \$704,000 | \$10,529,000 | \$13,465,000 |
| 1965 | 1,628,000 | 712,000 | 8,571,000 | 10,911,000 |

SHOW ROOMS:

Peppler Division, Hanover, Ontario

Peppler-Selig Division, Elora, Ontario

Sklar Division, 138 Oakdale Rd., Downsview, Ontario

General Showroom—Place Bonaventure, Montreal, Quebec

NUMBER OF EMPLOYEES:

| | |
|-----------------------|-----|
| Peppler Division..... | 368 |
|-----------------------|-----|

| | |
|-----------------------------|----|
| Peppler-Selig Division..... | 50 |
|-----------------------------|----|

| | |
|---------------------|-----|
| Sklar Division..... | 725 |
|---------------------|-----|

| | |
|--------------|-------------|
| TOTAL | 1143 |
|--------------|-------------|

NUMBER OF SHAREHOLDERS:

| | |
|--------------------|-----|
| Common Shares..... | 300 |
|--------------------|-----|

| | |
|-----------------|-----|
| Preference..... | 350 |
|-----------------|-----|

SHARES OUTSTANDING:

| | |
|--------------------|---------|
| Common Shares..... | 333,500 |
|--------------------|---------|

| | |
|-----------------|---------|
| Preference..... | 200,000 |
|-----------------|---------|

TRANSFER AGENTS AND REGISTRARS:

First preference shares

Montreal Trust Company—Toronto and Montreal

Common Shares

Guaranty Trust Company of Canada—Toronto, Montreal and Hanover

First mortgage sinking fund bonds

Eastern and Chartered Trust Company—Toronto

Convertible subordinate general mortgage debentures

National Trust Company—Toronto and Montreal

Convertible collateral trust debentures

Royal Trust Company—Toronto

